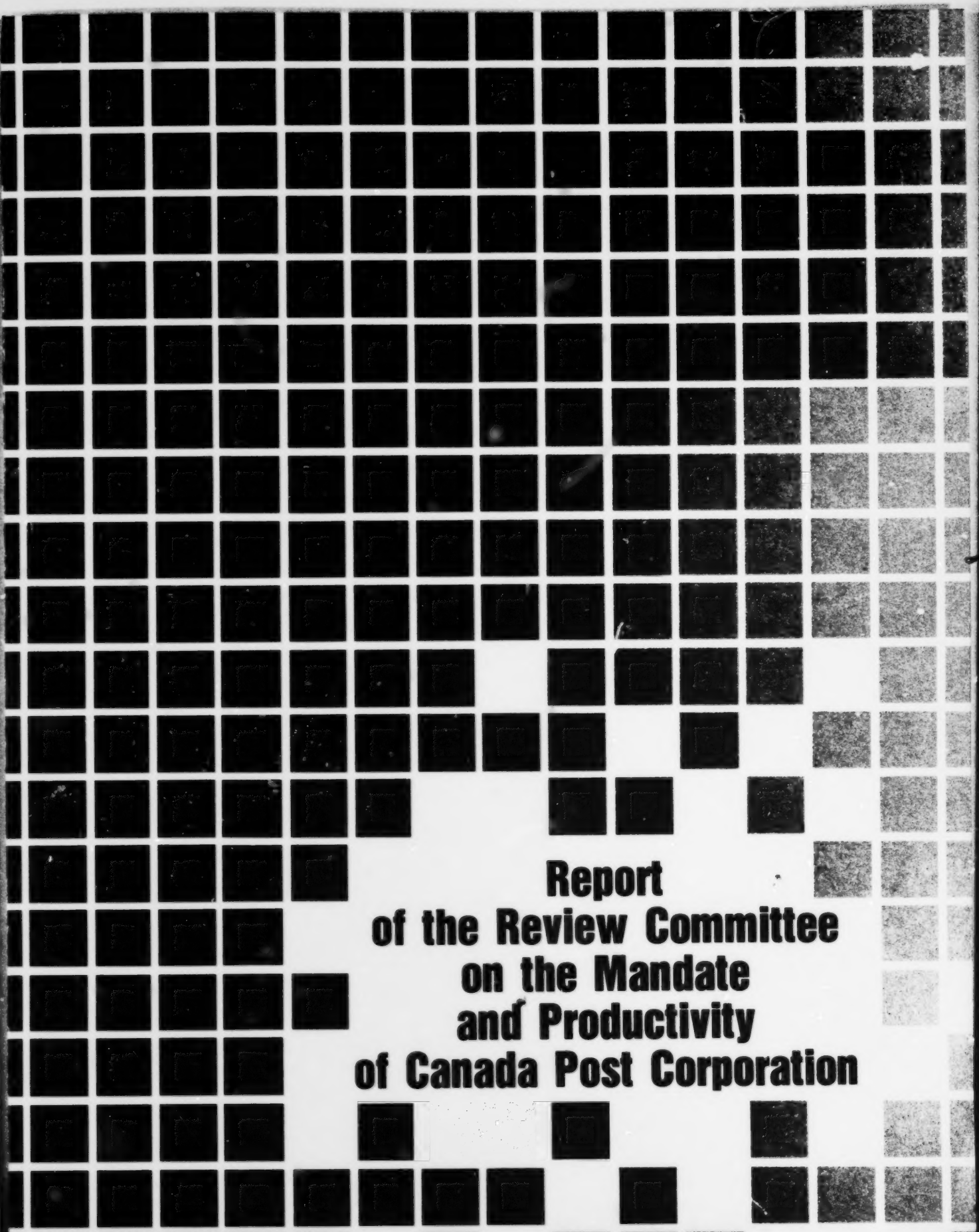

Report of the Review Committee on the Mandate and Productivity of Canada Post Corporation

86-1454/

THE REPORT

of the

REVIEW COMMITTEE

on the

MANDATE AND PRODUCTIVITY

of

CANADA POST CORPORATION

November 1985

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The Honourable Michel Côté, P.C., M.P.
Minister Responsible for Canada Post Corporation
Room 307, Confederation Building
House of Commons
Ottawa, Ontario
K1A 0A6

Dear Mr. Minister:

The Review Committee on the Mandate and Productivity of the Canada Post Corporation announced on June 20, 1985 and appointed on July 16, 1985, by your predecessor, the Honourable Perrin Beatty, P.C., M.P., has the honour of submitting its report.

Respectfully yours,

Alan R. Marchment, Chairman

Louis R. Comeau

Julien Major

Alix Granger

Fred H. McNeil

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PART I

Introduction

Establishment of the Committee

The then Minister Responsible for Canada Post Corporation, the Honourable Perrin Beatty, announced on June 20, 1985, the establishment of a Review Committee on the Mandate and Productivity of Canada Post Corporation, the membership of which would be drawn from the private sector. In making this announcement, the Minister indicated that the Review Committee would consult extensively with all interested groups, including postal users, the Corporation, and postal employees. He also said that before future rate increases are considered by the federal government, Cabinet will expect Canada Post to implement new measures to improve productivity.

In announcing the establishment of the Committee, the Minister also released its terms of reference as follows:

> Nearly four years have passed since the Canada Post Corporation was formed. In that period considerable progress has been made in converting the former postal department to a corporate enterprise. However, the period has also seen rapid social, economic, and technological change. In the light of this changing environment a review of the Corporation's mandate is required in order to bring the Corporation into the twenty-first century.
>
> The purpose of the review is to assess the Corporation's legislative mandate, policies and practices and to report to the Minister Responsible for the Canada Post Corporation on the future requirements for a national postal system.
>
> Without limiting the above, it is expected that the review will have regard for:
>
> > The optimum scope, level and quality of service that Canadians should expect in the next 15 years;
> >
> > The presence, if any, of statutory or institutional constraints in the postal system;
> >
> > The question of the Corporation's exclusive privilege will also be examined;
> >
> > The role of the private sector, and whether the postal service and the private sector should offer complementary or competing services;
> >
> > The productivity performance of the Corporation including ways to improve the utilization of its plant, labour, capital and equipment;
> >
> > Those upon whom the financial requirements of the postal service should rest and whether there should be third party rate regulation;
> >
> > Conclusions reached in the course of the review should be accompanied by a full description of the financial implications for the public and for the government.

On July 16, 1985, the then Minister announced the appointment of the membership of the Review Committee. The press release's biographical information on the members is reproduced in Appendix I. At the same time as the composition of the Committee was announced, the Minister indicated that the Committee would hold consultative meetings in major centres across Canada over the summer and would report back in early Autumn.

Methodology

Shortly after the announcement of their appointment, the Members met on July 22, 1985 to plan the Committee's work. A small secretariat was established and studies were assigned on the requirements to achieve financial self-sufficiency, third party rate regulation, and the legal mandate of the Corporation. Polls were commissioned to survey opinions of both the Canadian public and the business community. Advertisements were placed in major newspapers across the country inviting submissions and briefs from all interested parties. The advertisements in both officials languages are reproduced in Appendix II.

The Committee subsequently embarked on a series of hearings at which views covering a broad and varied range of interests and concerns were presented by residents of all provinces. During the course of the summer, hearings were held in Calgary, Halifax, Montreal, Ottawa, Toronto, Vancouver, Winnipeg and Yellowknife. At each location, the Committee invited senior Post Office management representatives and leaders of the postal unions to meet with it. In Ottawa, it met with representatives of the Canadian Labour Congress and the national offices of the postal unions as well as the Board of Directors and members of senior management of Canada Post Corporation. All meetings were held privately and were consultative in nature.

In Vancouver, Calgary, Yellowknife, Toronto and Montreal, the Committee took the opportunity to visit major postal facilities. The Committee also consulted with the management of the two postal systems whose jurisdictions most closely resemble Canada Post's in terms of geography: the Australian Postal Commission and the United States Postal Service. The Managing Director of the Australian Postal Commission, Mr. D.H. Eltringham, was invited to come to Canada to meet with the Committee. He provided valuable insights into the operations of the Australian Post Office. In Washington, the Committee met with both the retired Postmaster General, Mr. William F. Bolger, and with Mr. Paul N. Carlin, the present Postmaster General, and a group of senior management of the United States Postal Service.

While in Washington, the Committee also took the opportunity to meet with senior representatives of the U.S. postal unions, the National Association of Letter Carriers and the American Postal Workers Union.

Acknowledgements

The Committee is indebted to the great number of people who assisted its studies by giving generously of their time and sharing their insights. These included the Board of Directors of the Corporation; management, past and present; Canadian postal workers and their unions; Members of Parliament and other elected officials; and a wide cross-section of citizens representing business, associations, municipalities and private interests. The Committee is grateful to the representatives of the American Postal Workers Union and the National Association of Letter Carriers. The Committee wishes to acknowledge specifically the contribution made by the following:

Mr. D.H. Eltringham	— Managing Director The Australian Postal Commission
Mr. Paul N. Carlin	— Postmaster General of the United States

Mr. William F. Bolger	— former Postmaster General of the United States
Mrs. Shirley Carr	— Secretary-Treasurer Canadian Labour Congress
Mr. Ralph Fisher	— Partner Laventhol & Horwath
Mr. Kenneth Dye	— Auditor General of Canada

PART II

The Post Office

Canada Post Corporation began operations on October 16, 1981. It was established by Act of Parliament as the successor to the Post Office Department. The Act created a Crown corporation to assume the responsibilities previously undertaken by the Post Office Department and other government departments such as Supply and Services and Public Works, which provided supporting services.

The Canadian postal system is one of the largest in the world in geographical terms, spanning a continent and reaching into every inhabited area of the nation, from fishing villages on the Atlantic and Pacific to remote settlements in the high Arctic. It operates more than 8,000 offices and employs more than 60,000 people. Its real property assets alone are valued at approximately $1.4 billion. It also operates one of the largest vehicle fleets in the country and is the largest single Canadian consumer of air freight service. Its operations touch on the lives of Canadians virtually every working day and is the most frequent evidence of federal presence in every community in the country.

During the 1970's, Canadians grew increasingly frustrated with the postal system. It was a period marked by labour strife and interruptions to postal services. Businesses of all sizes were hurt and some faced bankruptcy. Many studies were launched to try to find a solution to the problems. Among the recommendations arising from these studies was a proposal to convert the Post Office from a government department to a Crown corporation. This was done through an Act of Parliament and, in October 1981, Canada Post Corporation began operations.

The new Crown corporation was seen as a means to overcome the problems that had plagued the postal system. The objects of the Corporation were set out in Section 5(1) of the *Canada Post Corporation Act*:

> 5(1) The objects of the Corporation are:
>
> a) to establish and operate a postal service for the collection, transmission and delivery of messages, information, funds and goods both within Canada and between Canada and places outside Canada;
>
> b) to manufacture and provide such products and to provide such services as are, in the opinion of the Corporation, necessary or incidental to the postal service provided by the Corporation; and
>
> c) to provide to or on behalf of departments and agencies of, and corporations owned, controlled or operated by, the Government of Canada or any provincial, regional or municipal government in Canada or to any person services that, in the opinion of the Corporation, are capable of being conveniently provided in the course of carrying out the other objects of the Corporation.

The *Act* went on to elaborate on the objects of the new corporation in Section 5(2) as follows:

> 5(2) While maintaining basic customary postal service, the Corporation, in carrying out its objects, shall have regard to:
>
> (a) the desirability of improving and extending its products and services in the light of developments in the field of communications;
>
> (b) the need to conduct its operations on a self-sustaining financial basis while providing a standard of service that will meet the needs of the people of Canada and that is similar with respect to communities of the same size;
>
> (c) the need to conduct its operations in such manner as will best provide for the security of mail;
>
> (d) the desirability of utilizing the human resources of the Corporation in a manner that will both attain the objects of the Corporation and ensure the commitment and dedication of its employees to the attainment of those objects; and
>
> (e) the need to maintain a corporate identity program approved by the Governor-in-Council that reflects the role of the Corporation as an institution of the Government of Canada.

The *Act* provides for a Board of Directors to "direct and manage the affairs of the Corporation". As interpreted by the Board of Directors at the Corporation's inception, the basic objectives to be met were improved service, the creation of a better climate for human relations within the organization, and the achievement of financial self-sufficiency by the end of the Corporation's fifth year of operation viz; 1986-87. No ranking of priority was given to these objectives, nor has any been given since. However, the postal unions allege that the third objective (achieving financial self-sufficiency) has been given precedence.

Since becoming a Crown corporation in October 1981, Canada Post has made considerable progress. Advances have been made in converting the accounting and financial control systems from those of a department to those of a typical corporation. The Auditor General informed the Committee that the Corporation has embarked with some success in product costing although much remains to be done. Also, the introduction of a professional labour relations staff has permitted the Corporation to establish a more effective working basis with the various postal unions. Beyond that, however, real achievements are not so readily apparent.

The Corporation's *Annual Report* for 1984-85 notes that the deficit has been reduced from $588 million* in its first year of operations, 1981-82, to $347 million in 1984-85. (See Table I.) The deficit is calculated after receipt, each year, of $55.7 million in publishers' subsidies to offset the low rates charged for Second Class mail, and $170 million in infrastructure payments associated with publishers' mail to allow for the rationalization of facilities and equipment required to handle such mail. This payment is intended to be reduced to zero after 1986-87. It should be noted here that there are two methods of calculating the deficit which yield different results. These methods are discussed in Appendix III.

*Based on the full year's operation, only five and a half months of which was as a corporation.

Table I

Government Funding of Canada Post Corporation Deficit
October 16, 1981 Onwards

	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87
	($ millions)					
Forecast deficit funding	300	400	300	350	200	No government funding
Actual funding provided	178	262	306	347	?	?

Source: Canada Post Corporation
1984-85 *Annual Report*

Whichever method of calculating the deficit is used, however, it is clear that the reduction was achieved largely through the increased revenue generated by the 1981 rate increase, the greatest single increase for First Class postage in the country's history (the largest in both absolute — 13 cents — and percentage terms 76.5%). That increase, and two smaller subsequent increases in 1983 and 1985, doubled the price of First Class mail in the four years since the Corporation was created.

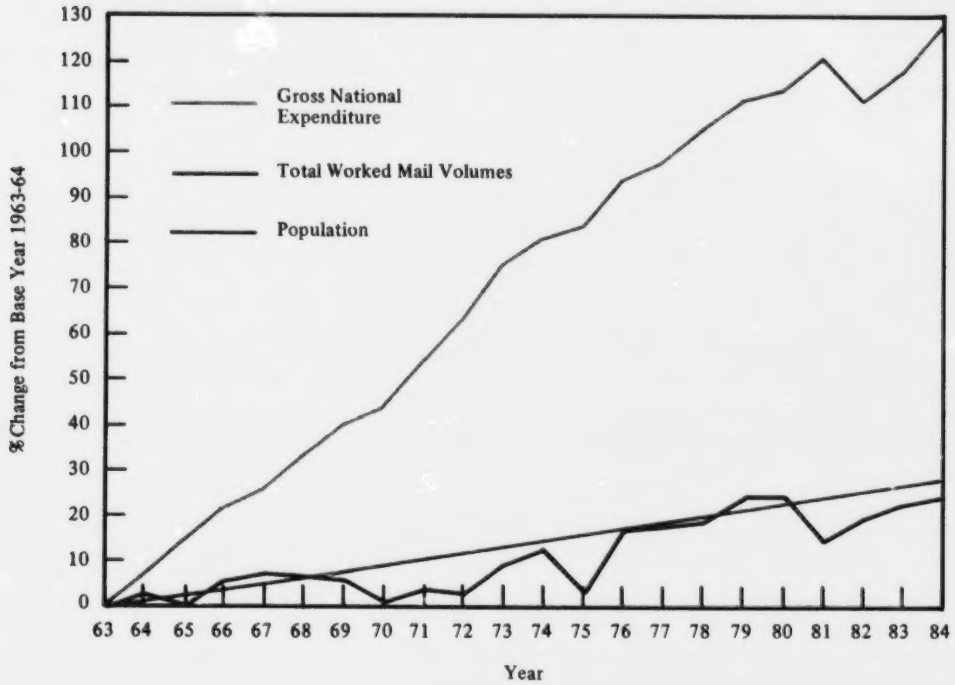
It is true that Canadians have been spared service disruptions caused by strikes since the Corporation came into existence. For a full two years of that period, however, strikes were effectively eliminated in federal jurisdictions by the "6 and 5" anti-inflation legislation.

Worked mail volumes continued the trend first observed in 1968 of failing to keep abreast of population growth (see Chart 1). They remained more or less static. The notable exception was the growth in Third Class unaddressed mail, the volume of which has risen by more than 60% since incorporation. This particular type of mail, which is defined as 'unworked' because it requires no sorting in the plants, has average gross revenues of 6.7 cents per piece as compared to 38 cents for First Class. It now accounts for one quarter of all mail originating in Canada. Indeed, virtually all of the 12% increase in mail volumes since the Corporation was established has been generated by unaddressed Third Class mail. However, although the gross income from this source doubled, it still amounted to only 5.4% of total revenues in 1984-85.

There has been little change in the total employment of labour in the Post Office since incorporation. In its first full year of operation, 1982-1983, the Corporation utilized 62,202 person years. In its most recent year, 1984-1985, it used 62,477 person years, an increase of 275. It should be observed, however, that while mail processing staff fell by more than 700 in that period (having already been reduced by 1,100 in the 1981-1982 fiscal year), technical support and administrative staff rose by almost 1,000 person years. The increase in this latter group, of course, is an addition to overhead and does not necessarily reflect in service improvements to the consumer.

CHART 1

GNE, Population, and Total Worked Mail Volumes
1963-64 to 1984-85



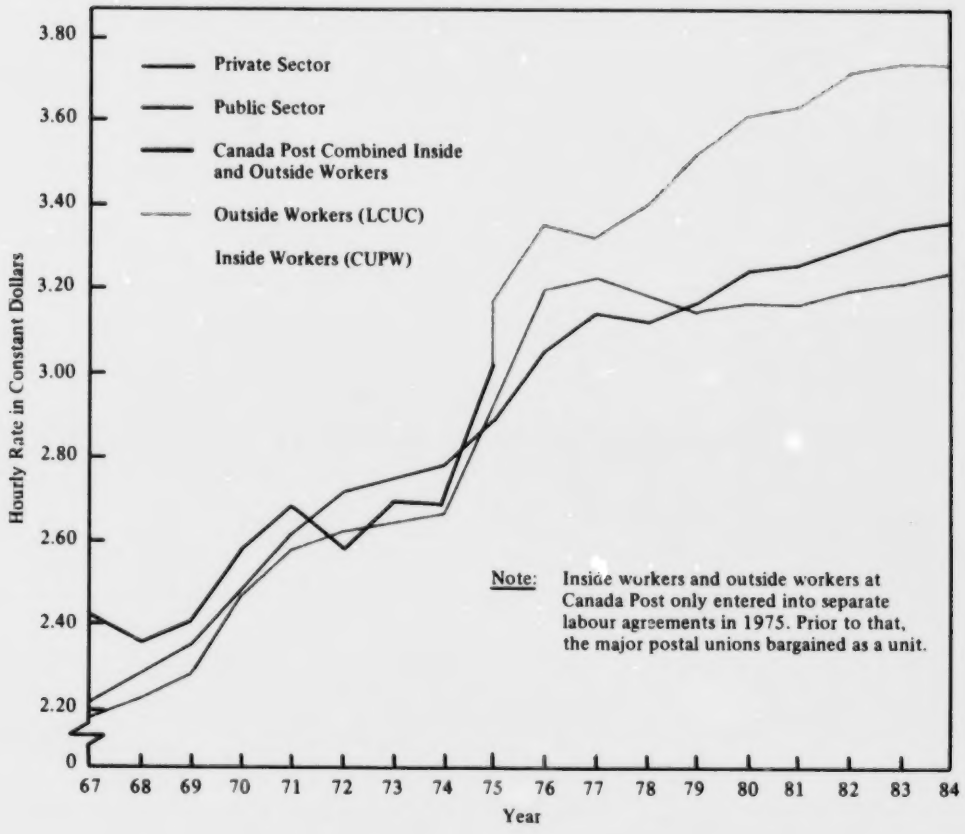
Since personnel costs have increased in line with revenues in every year except 1982-83, no productivity gains have been achieved. Postal workers have continued to receive higher wage increases than either industrial sector workers or public service employees. (See Charts 2 and 3.)

Net capital spending on plant and equipment, on the other hand, has been constrained. At $187 million over the four years since incorporation, capital spending amounted to less than three percent of total revenue. This is only slightly more than 75% of recorded depreciation, considerably less than required to maintain the more than $1.5 billion worth of corporate assets. During the same period, the corporation spent $23.8 million on marketing and image advertising and $1.9 million on other advertising, including recruiting. It is interesting to note that, in 1984-85, while the corporation spent $13 million on advertising, its capital expenses were only $30 million. In short, reductions in the deficit can clearly be attributed to rate increases and to restrictions in capital spending rather than to increases in business or reductions in operating costs.

Another initiative by Canada Post was a sales outlet arrangement with Consumers' Distributing Ltd. Although this initiative was widely supported by the postal unions, and may have had the potential to yield significant additional income, it was terminated in response to pressures originating with the business community.

CHART 2

Comparative Hourly Rates of Pay in Constant 1967 Dollars

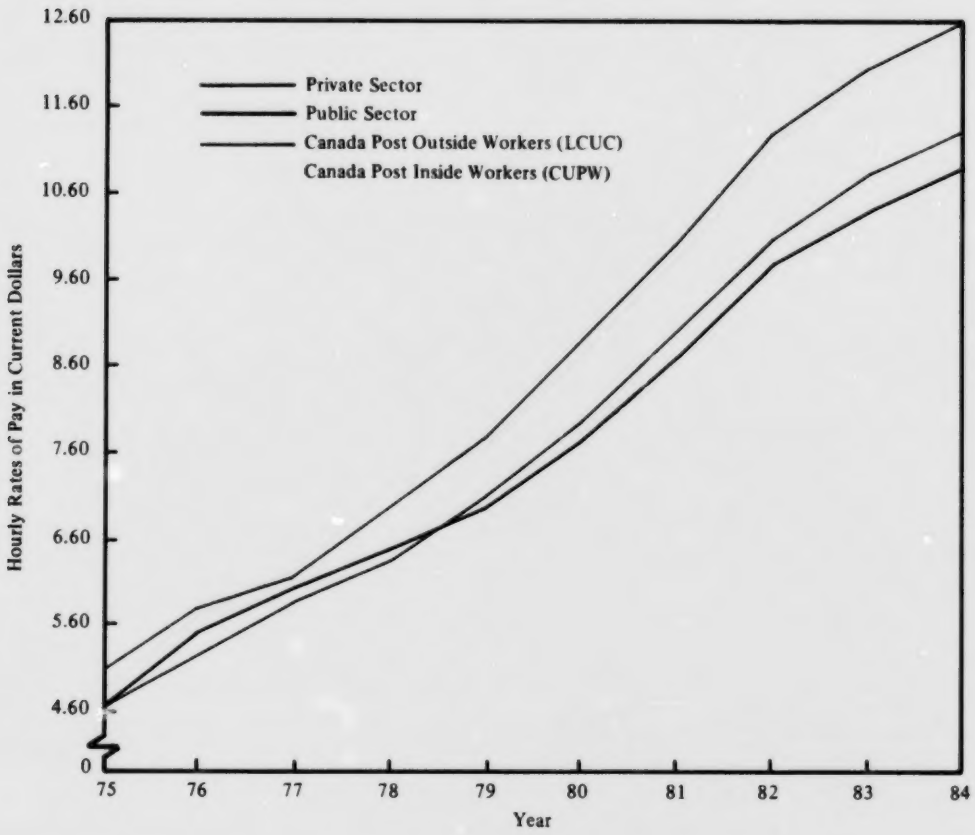


The Corporation's thrust for both growth and diversification is also illustrated by the proposals in its 1985-86 corporate plan submission to "revitalize" the parcel post business and to increase greatly its involvement in electronic mail. Canada Post has proposed spending $191 million over five years to recapture parcel business lost to its competitors and to commit $791 million to expand beyond the current level of involvement in electronic mail. Neither of these schemes as outlined in the corporate plan can withstand serious analysis.

In the case of the parcel business, the Corporation's share of the existing market is estimated at between 6% and 8% of the total volume of parcel shipments. This type of activity has been declining since 1968. Indeed, the volume of parcels handled by Canada Post in 1984 was only about 47% of the volume recorded in 1960. The decline can be attributed to a number of factors including more vigorous competition. Viewed in that context, the investment of $191 million to regain a portion of business already lost can only be regarded as speculative and risky.

CHART 3

Comparative Hourly Rates of Pay in Current Dollars



While Canada Post is already somewhat involved in electronic mail through the services of Telepost, Intelpost and Envoypost, it hopes to become much more active. The Corporation is developing a concept for handling volume mail electronically. The process involves a national centre through which computer-generated correspondence and transaction mail can be sorted and forwarded electronically to print centres for hard copy reproduction, placement in envelopes and subsequent local delivery. A pilot project is nearing completion at the Alta Vista Post Office in Ottawa and planning is underway for a national centre. To further its penetration of this field, the Corporation has been proposing to spend three quarters of a billion dollars against projected income of only $79 million over the next five years — a mere fraction of the interest expense that will be incurred in borrowing such funds.

Neither of these major programs has been justified in cost-benefit terms and must be viewed as highly questionable applications of public funds at this time. The recent experience of the U.S. Postal Service is worth noting. That agency has just abandoned its electronic mail subsidiary after experiencing consistent and substantial losses in this type of service since its introduction earlier in the decade. The Australian Post Office, while maintaining a position in electronic mail similar

to that already in place in Canada (i.e. Telepost, Envoypost and Intelpost), has no plans to make any major expenditures in this field until it is justified by demand and potential revenues. Similarly, the U.S. and Australian postal services are not prepared to commit any significant expenditures in pursuit of parcel business which has been lost to competition.

In its study of Canada Post Corporation, the Committee became keenly aware that Canadians in all walks of life have a primary interest in being provided with a consistently reliable service at fair cost. It also became clear to the Committee that Canadians do not look to Canada Post Corporation to supply all their communications needs. A considerable industry has grown out of the supplying of services that once were the exclusive province of the Post Office. Advances in technology have given corporations the ability to handle increasing volumes of communications electronically, thereby reducing their reliance on the postal service. Similarly, private carriers have not only provided parcel deliveries at an acceptable level of cost and service but also handle a large amount of business mail which would otherwise fall into the First Class category.

Reliance on these alternative channels of communication undoubtedly reduces the amount of business that Canadians give to Canada Post. It is clear to the Committee that this is due in large part to the perceived unreliability of the postal service. The loss of business arising from public dissatisfaction, as well as from recent technological advances, may be lost forever.

In reporting the results of our survey of business attitudes towards Canada's postal service, Environics Research Group Limited, who conducted the poll, began with the following comment:

> The major single problem which business users of the postal system face is lengthy delays in mail delivery. Canada Post, and in particular, the first class mail system is seen as the most economical vehicle for business correspondence, but it is also targeted as the slowest and least reliable.
>
> As a result, a large minority of Canadian businesses have moved to other methods of correspondence transmission, either on a temporary or permanent basis. The shift in methods of transmission have essentially been from first class mail to private couriers although all postal services have been affected by a reduction in use and other methods of transmission — particularly the telephone or telex — have benefitted.
>
> Dissatisfaction with the postal service is far from universal and Canada Post still dominates in the area of sending business correspondence, despite the grumbling of businesses. But widespread recognition that the post office has improved its quality of service over the past four years has not yet been achieved.
>
> Businesses expect Canada Post to do its part, to improve efficiency, before they will accept rate increases to help cover the deficit.

In light of these considerations, it is instructive to examine the Corporation's interpretation of the mandate it has been given. As mentioned above, the Board of Directors, at the inception of the Corporation, adopted a three-pronged definition of its objectives: to improve service; to create a better climate for human relations within the Corporation; and to achieve financial self-sufficiency by the end of the 1986-87 financial year.

The Committee heard frequent complaints in its hearings across the country and in many letters from individuals and companies about the perceived inadequacy and unreliability of the postal system. These were borne out by the results of the opinion polls which we commissioned, and by the Corporation's 1984-85 *Annual Report* which illustrates that while performance improved in the early years of the Corporation's existence, it has since declined considerably, until in the latter part of 1984 it approximated the levels experienced before the formation of the Corporation.

In the area of employee relations, there has been little real progress. Indeed, the unions, in their many appearances before the Committee across the country, consistently observed that labour relations are now the worst ever in the history of the Post Office. While this assertion may be an exaggeration for the sake of emphasis, the number of grievances filed is very high with more than 16,000 currently pending arbitration. Moreover, the Committee was disturbed by the vehemence and animosity between the parties which manifested itself on many occasions. While it is noteworthy that the CUPW negotiations were resolved in 1984 without resort to a strike, it would be inappropriate to conclude that there has therefore been much improvement in labour-management relations.

The third objective, that of achieving financial self-sufficiency by the end of the fifth year of operations, is also unlikely to succeed. The Corporation recorded a deficit of $347 million in 1984-85 after receiving subsidies of $55 million and $170 million. It must reduce its deficit to $200 million in 1985-86 after receipt of the same subsidies. The rate increase received earlier this year will help, but in 1986-1987, the Corporation will lose at least $70 million of its infrastructure sudsidy and its transitional subsidy, which has covered its deficit in each year since incorporation, will be removed completely. In short, it must replace $270 million through additional revenues and cost reductions if it is to achieve its five year target of self-sufficiency in 1986-87. In seeking financial self-sufficiency, the Corporation has four main options available. Postal rates can be increased; existing services can be expanded; new services can be introduced or costs can be reduced. Of course, these options are not mutually exclusive and Canada Post Corporation has pursued each of them with varying degrees of success.

The most recent rate increases were achieved only after considerable public outcry. While additional revenue can be generated in the future by further rate increases, the Corporation does not, at present, have the ability to attain break-even by rate increases alone. Management estimates that the maximum increase possible for First Class letter rates is no more than six to ten cents before losses in volume offset gains. It is also doubtful whether opportunities exist for generating additional revenue through the expansion of existing services, such as — for example — Priority Post. Nor is it clear that new services can be developed in the short term with sufficient revenue potential to have an impact on achieving the break-even objective. Cost reduction opportunities, however, do seem to offer some hope though, even in this area, there are serious constraints. For example, reduction in the unionized workforce is greatly impeded by the no lay-off clauses in the collective agreements which cover the majority of the Corporation's workforce.

Consultants retained by the Committee to examine the Corporation's financial circumstances have noted that there are four major impediments to self-sufficiency. These are:

— the requirement to provide services which are not funded by rates (eg. government free mail, publications, rural post offices, remote air stage post offices);

— the inability to increase rates whenever necessary;

— the restrictions on management's flexibility concerning wage levels and productivity improvements; and

— the prohibition imposed by the Minister of Finance on borrowing to finance capital expenditures.

All Canadians require a postal service. In particular, they require a reliable First and Second Class mail system. Particular groups, such as small businesses and rural residents, also have special needs which they look to the Post Office to fill. At each of its hearings in every part of the country the Committee heard complaints about the service provided by Canada Post Corporation. Pleas were heard repeatedly for a consistent, dependable, regular movement of mail between one location and another.

At the same time, it also became clear to the Committee that Canadians were quite prepared to accept different standards for different classes of mail — provided these standards were consistently met. The demand is for a service that can be relied upon. In other words, it is acceptable for one class of mail to be given next day delivery while another class be delivered in four days. Given such choices, Canadians appear quite willing to pay a reasonable price to purchase the type of service they require for different needs, provided they can be sure that they will receive the level of service they pay for.

Examples were cited of mail being received from remote points in only two or three days. One case was brought to our attention of a Priority Post mailing from Yellowknife being in the hands of the recipient in Dublin, Ireland, 27 hours after mailing. The same Canada Post customer, however, told us of First Class mail from Edmonton to Yellowknife taking ten days. The Committee heard numerous complaints of First Class mail taking up to two weeks to move across town in relatively small communities. Indeed, we were told repeatedly that the term "First Class mail" was a misnomer since it normally takes far longer than is reasonable for delivery.

In the North, complaints were heard of mail for remote communities, accessible only by air, going undelivered for up to three weeks because of the low priority it is given on aircraft destined for these locations. Common carriers, particularly small airlines, give lower priority to mail than to passengers and baggage. The result is that mail can be delayed indefinitely when there is a high volume of passenger traffic. Indeed, we often heard of postal shipments being bumped along the way to make room for passengers.

Although the Corporation has indicated that it strives to achieve priority for postal shipments, it has not been particularly successful in doing so. The Committee is of the view that priority status for mail should be a pre-condition in all future contracts for air services. It is clear that Canadians, wherever they live, are entitled to regular, dependable mail service.

Despite assurances from Canada Post that almost 90% of First Class mail is delivered "on time", a number of individuals and organizations complained to the Committee about the practice of Canada Post in reporting its percentage of "on time" deliveries without ever having disclosed its performance targets. They wanted to know what the goals were. How long should it take different classes of mail to move within a municipality, within a postal region, between postal regions, nationally and internationally? Many of those who appeared at our hearings had firm views on this subject. Most considered that next day delivery of First Class mail should be the norm within any urban area, second day delivery between adjoining regions and third or fourth day delivery nationally.

Canadians have not been provided with a clear definition of what the Post Office means when it refers to "on time" delivery. The Committee was able to acquire this information and has included it in Appendix IV of this Report. However, the manner in which the Corporation measures its delivery performance is suspect. The Committee has been advised that test mail is tracked from within the plant of origin to the plant of destination, not -- as would be more meaningful — from mailbox to recipient.

For some time the Corporation, and the department which preceded it, has used a performance measurement system known as NEPS (National Evaluation of Postal Service). Under this method, a pre-determined number of test letters is seeded into the mail arriving at plants for sorting in order to test the efficiency of both the plants and the transportation network between major centres. The test letters are addressed to post office box numbers at various destinations and are checked when they are received in such boxes. The results are then stated as a percentage success in achieving national delivery goals. Reports that such test mail is readily identifiable and is given expeditious treatment were heard on several occasions. Examples were provided to the Committee of plant management removing test mail and by-passing the normal processing system to ensure that it arrives safely and on time without ever going through the actual mailstream. This raises serious questions about the validity of the Corporation's claims concerning performance.

As the start date of the test is the cancellation, an incorrect meter date or late cancellation in the plant, after lengthy storage, can result in inaccurate performance data being generated. Recognizing the fallibility of the NEPS system, the Corporation itself introduced a customer co-operative testing program in late 1983. This new program which enlists the help of customers to determine the number of days required for processing and delivery of First Class mail is somewhat less vulnerable to special treatment. Data collected under the program has already shown marked differences from the NEPS data. The importance of the accuracy of such data becomes clear when it is considered that an error rate of only 1% — which is minimal by the standards of most industrial operations — would represent more than 53 million pieces of mail a year.

"Canada Post," the Committee was often told, "should be able to tell us what it can consistently achieve in delivering its various classes of mail and meet those targets reliably. Then if we need quicker service than they can provide with, say, First Class mail, we can opt for more expensive means such as couriers."

The Australian example is worth noting. There the Post Office's service standards are posted on mail boxes, on Post Office bulletin boards and in the Corporation's advertising. In that country the standard calls for 90% of all mail being delivered on the next working day with one day's latitude for more distant points. In 1982-83, 94.6% of their equivalent of First Class mail was delivered within that time frame. These particular deadlines may not be practicable in Canada given factors such as geography, weather and the provisions in existing union contracts which inhibit the use of part-time and casual employees to meet surges in demand. Nonetheless, users of the mail system in Canada should be able to rely on mail being delivered according to reasonable targets which reflect the peculiarities of Canadian geography and climate.

Environics Research Group Limited began their commentary on our public opinion poll with the following:

> Despite internal achievements in efficiency and management-labour relations since October, 1981, Canada Post still has a long way to go to build public confidence in the Corporation.

Canadians have not registered much improvement in postal service; they have felt only the rate increases. And there is the sense that management-labour relations have declined rather than improved over the past four years.

People speak well of individual post office staff with whom they come in contact, but there is a lack of public goodwill toward Canada Post itself. Canadians are not sufficiently sympathetic with the post office's deficit dilemma to accept further increases in postal rates or income taxes.

Canadians may be willing to accept a decrease in postal service, however, if they receive something in return. But any change in this area should be preceded by an improvement in the public's perceptions of Canada Post both in terms of quality of service and cost.

While reliability was the most frequent and constant complaint raised across the country and in the various briefs, much concern was also expressed about perceived inequities in the extent of delivery service provided. The practice in Canada has been to provide door-to-door letter carrier service in urban areas with commercial establishments receiving twice daily deliveries. Rural routes historically had received mail six days a week, reflecting the need to ensure that residents of farm communities could receive newspapers on a daily basis. In more widespread areas such as the Prairies where greater distances separate farms and ranches, mail has been available from post offices only and customers have to pay for their mail boxes. In recent years, in an effort to contain costs, Canada Post Corporation has sought to change delivery patterns by reducing rural delivery from six days a week to five, by reducing deliveries to businesses from twice daily to once, and by declining to extend letter carrier service to new sub-divisions and new construction within existing municipalities. In this last case, various types of mail boxes — community mail boxes and group mail boxes — have been introduced with mixed success. However, many urban residents in new developments are dissatisfied with this approach. They believe they are being treated inequitably when they have to go to mail boxes to receive their mail while other residents in the same community, sometimes their next door neighbours, continue to receive daily letter carrier service.

The Letter Carriers Union of Canada has done its part to stimulate public discussion of extended letter carrier service by placing prominent advertising in newspapers in communities where letter carrier service has not been provided to new sub-divisions. The advertising has highlighted the difficulties experienced by the aged and handicapped in having to go to group or community mail boxes for their mail. If the Corporation were to respond to demands for daily door-to-door service in all new sub-divisions, many hundreds of additional letter carrier positions would have to be created at a cost of over $30,000 per annum for each position.

Daily letter carrier service is an expensive option, estimated by the Post Office to be approximately $100 per household per year as compared to about $30 per household per year for group or community letter boxes and about $45 for rural mail service. In the opinion poll which it commissioned, the Committee sought the views of Canadians on daily letter carrier service and explored public acceptance of a form of alternate day delivery (i.e. delivery every second day) in lieu of group or community mail boxes. If alternate day delivery were provided to new sub-divisions it would reduce the need for new letter carrier positions by one half. A more extensive strategy would be to have alternate day service introduced universally except for commercial districts and rural service. This could be a major factor in containing costs. The adoption of such a strategy, however, would cause considerable dislocation for letter carriers across the country unless it were done through

attrition, after absorbing as many of the existing workforce as possible in providing alternate day service to new communities.

Yet another option would be enclosed facilities, protected from the elements, housing group mail boxes. Such installations, if introduced after adequate consultation with potential users, would have the advantage of being considerably less costly than home delivery and would also be more secure than the outdoor boxes now being used.

As a future consideration for cost containment, the Post Office might wish to explore contracting out all letter carrier services, starting with new sub-divisions and then expanding to existing routes. Rural mail has been contracted out by the Post Office to small contractors on a tender basis for many years with success. Consideration should also be given to the efforts of the United States Post Office to reduce the costs of home delivery by using "line of route" boxes on the curbs in housing developments. This system enables the use of motorized transportation by letter carriers and greatly increases the efficiency of such staff in terms of the number of points of call they can achieve daily.

The Committee also received sufficient complaints about the handling of Second Class mail to convince it that this type of mail is particularly vulnerable to lengthy delays in handling. We heard of periodicals being received out of sequence or with two or three issues bundled together. Some newspapers are received weeks after being mailed, rendering them of little value other than for historical purposes. Consumers who receive daily newspapers late or out of sequence are often annoyed that they have not learned of advertised goods or public events until it was too late to benefit from the information. Obviously, those who inserted the advertisements are also dissatisfied. Similarly business and professional journals often only have archival value by the time they are received.

Canada Post Corporation's own definition of Second Class mail is that it will be treated in all respects as First Class mail except that it will not be shipped by air within Canada. It is clear from what the Committee heard that this definition is not being adhered to.

Greater than the concerns about levels and extent of service was the frequently expressed disenchantment with disruptions in the mail caused by legal strikes and wildcat walkouts. Many persons noted that such stoppages impact most severely on the aged, the handicapped, the poor and small business. These groups often do not have sufficient financial resources to withstand interruptions in their incomes. Technological advances have made it possible to make direct payments to bank accounts and, correspondingly, to pre-arrange deductions from bank accounts to pay for hydro, insurance, telephone service, cablevision, credit cards, etc. This trend can be expected to increase over time. The Government itself, as a major distributor of payments to the public, can do a great deal — by arranging for direct funds payments on a voluntary basis — to protect those most vulnerable to postal delays.

PART III

Mandate and Productivity

The Committee's terms of reference instructed it to review both the mandate and productivity of Canada Post. In doing so, it was also required to comment on a series of issues, some of which were clearly tangential to the primary headings, yet each warranting examination. In presenting its findings, the Committee has brought them together under twelve headings, each concluding with specific recommendations. These twelve headings are not mutually exclusive. They overlap and should be considered as a whole.

In presenting its findings in this way, the Committee is aware that it may not appear at first glance to have addressed all the issues raised in its terms of reference. For example, the Committee was instructed to "have regard for . . . . statutory or institutional constraints in the postal system." This has not been dealt with as a separate topic. It will be clear to the reader, however, from our discussion of labour relations and financial self-sufficiency, that there are clearly institutional constraints. Similarly, our discussion of the Board of Directors and the legislative mandate, include references to statutory constraints. In the same vein, the Committee may appear to have ignored the instruction in its mandate that, "Conclusions reached in the course of the review should be accompanied by a full description of the financial implications for the public and for the government". For the most part, the Committee has incorporated the question of costs within its wider discussion of the various topics under consideration. The Committee is also of the view that most of its recommendations can be implemented without significant additional cost or will be offset by compensatory savings or improved revenues.

The problems of Canada Post are massive, if not unsolvable. If this were not so, the difficulties that have plagued the organization would have been put to rest long ago. Nonetheless, it is incumbent on the Committee to suggest the approaches which it has concluded present an alternative to continuing to see the Post Office struggle ineffectually against apparently overwhelming obstacles. The Committee is of the view that it can do so most clearly and concisely by isolating the most important problem areas and suggesting new directions which provide hope of continuing to give all Canadians the postal service they need and want.

A. Service at Canada Post

The Corporation's raison d'être is unquestionably service, i.e. the pick up and delivery of mail. It is clear that Canadians perceive the Post Office to be unreliable and slow in the delivery of mail, particularly First Class and, to an important degree, Second Class. On its part, the Corporation has striven to measure its performance accurately and to improve its on-time delivery in all parts of the country.

Unions representing postal employees have argued that the Corporation has downplayed service in favour of achieving financial self-sufficiency. While it is clear that financial self-sufficiency has been an important goal of the Corporation, responsibility for the perception of poor service has to be more widely borne.

If service objectives are to be achieved and public confidence in the reliability and timeliness of the postal system restored, there will have to be greater dedication to service quality. The Corporation and its predecessor department have dedicated considerable resources and management time to marketing and, in particular, to the development of new products and services. Marketing can help to achieve service targets if, for example, it is aimed at making large volume mailers aware of efficiencies available both to the mailer and to the Post Office through standardization of envelopes, widespread use of postal codes, scheduling to avoid mail congestion and where possible, pre-sortation. The poll of businesses which the Committee commissioned confirms the value of this sort of marketing. Corporations who had sufficient mail volume to warrant bulk rate arrangements were asked why they did not take advantage of the discount. Forty-nine percent responded that they were unaware of the discount.

On the other hand, undue emphasis on marketing activities directed towards new products and services may distract management and staff from the primary objective of reliably delivering the mails on time.

The Committee heard from Canadians through briefs, personal appearances and polls that they want adherence to defined performance standards. Moreover, the polls indicated that the public is prepared to accept reasonable standards for on-time delivery that are slightly longer than the current corporate targets. While First Class mail was the primary concern expressed by the public in presentations to the Committee and in the polls, it was also clear that reasonable expectations with respect to Second Class mail, that is periodicals and newspapers, were not being met. This type of mail is also time sensitive, perhaps even more so than some First Class mail, and requires expeditious handling.

The Committee also heard complaints about the denial of letter carrier service to areas that would normally be seen to qualify for door-to-door delivery. There has been instead the provision of community and group mail boxes for new areas. For the Corporation, trying to strike a balance between service and cost, the relatively minor inconvenience for some customers in going to these boxes, compared to the apparently much more cost effective results, has some appeal. On the other hand, it has been difficult to convince Canadians living in new sub-divisions that they should go without mail delivery while those who live in more mature neighbourhoods continue to have daily letter carrier service. Yet compromises are necessary if the Post Office is to become more efficient and minimize the drain on the public purse and the pocketbooks of its users. It is important, however, that these compromises be worked out through prior consultations with the communities involved.

Finally, if service is to be given the priority it needs, Canada Post must have appropriate means and systems in place to ensure that its service targets are being pursued effectively. An objective management audit capability, reporting at the highest levels of the Corporation, is essential.

The Committee recommends that:

1. **The primary goal of the Corporation be the provision of a consistently reliable service within acceptable standards for First and Second Class mail.**

2. **An acceptable level of service for First and Second Class mail be defined as two days maximum for local mail, that is, mail originating and being delivered within the same city; three days maximum for intra-regional mail, i.e. within the same province; and four days maximum from coast to coast.**

3. **Canada Post publicly display in all Post Offices its delivery standards by various classes of mail and report on its achievements against such standards in the quarterly report required under the provisions of the *Financial Administration Act*.**

4. **All contractors carrying mail for Canada Post be required by law to treat the mail as their first priority.**

5. **Canada Post develop a more reliable system for measuring on-time delivery performance from mail box to recipient and that this performance measurement be done by independent external researchers on non-renewable three year term contracts to ensure greater objectivity.**

6. **Greater emphasis be given to internally auditing compliance with corporate policies relating to service and to evaluating the effectiveness of systems and policies for mail processing and delivery. The effectiveness of these internal audit procedures should be reviewed by the external auditor. In addition, the internal auditors should have a divisional presence, be responsible to headquarters and report at least annually to the Audit Committee of the Board of Directors.**

7. **Canada Post should give priority to the development and marketing of present services.**

8. **Communities in urban areas which do not enjoy daily door-to-door delivery be consulted with a view to offering the choice between alternate day letter carrier service or daily mail service through the use of group, community or post office boxes.**

9. **As soon as the Corporation is financially self-sufficient, Canada Post cease charging customers for the rental of post office boxes where letter carrier service is not provided.**

B. Privatization

Suggestions were made to the Committee at its hearings that Canada Post should be privatized, particularly if it cannot provide the service Canadians expect. There are two approaches that could be taken in privatizing the Post Office. The Canada Post Corporation could be turned over as a whole to the private sector. If that were done, the new corporation would have to be given the mandate of providing universal postal service at uniform rates to all Canadians. No doubt this could be done. It would require complex regulatory legislative arrangements, but that is not an insuperable obstacle. We have had similar legislation, although to a lesser extent and with varying degrees of regulation, for telephone services, air transportation and railways.

A private sector corporation set up to replace Canada Post Corporation would need to develop and maintain a capacity to conduct international negotiations with other postal services who usually deal on a government agency to government agency basis. That could be done. Similarly the requirement of a universal postal service at uniform rates would require the new corporation to provide for cross-subsidization within rate classes. That, too, could be done. Although, admittedly, no national postal system in the world is operated by private owners, that in itself does not make it unthinkable.

There is, however, one difficulty which the Committee is convinced could not be overcome at this time. The Post Office's continuing history of annual losses makes it an unattractive candidate for sale in its entirety as a going concern. Even if it were given away, the newly established corporation with no history of prior earnings would find it virtually impossible to arrange adequate financing in the private money markets. To turn the Canada Post over to the private sector and then provide the new corporation with Government grants and guarantees would hardly satisfy the objective of reducing the real and potential drain on the Treasury and, hence, on the taxpayer.

The second approach to privatization is to sell it off in parts. No doubt, if the Government decided to withdraw from the postal business on a phased basis, there would be many bids to take over heavily populated areas which generate high postal revenues. However, areas of the country which are thinly populated and lack industrial concentration would be less attractive to business. These areas do not now generate sufficient postal revenue to cover the cost of mail processing and delivery. Some form of transfer payments would be imperative to make servicing of such areas viable. Indeed, it may well prove necessary to keep a much reduced Canada Post in existence as the mail handler of last resort. Such a Post Office would, of necessity, be an ongoing charge against public funds. The Committee is of the view that so long as universality of postal service is accepted as a tenet of public policy, privatization by parts is not the most desirable solution. Far better to turn around the present Crown corporation and make it self-sufficient. The Committee is convinced that this can be done. The key is for Canada Post to provide Canadians with competent, reliable service. To do that will require management and labour to strive towards it as a common goal. The Committee believes they should be provided with a further opportunity to do so. Only if that fails should privatization be implemented. The Committee, therefore, recommends that:

> **10. Privatization not be considered at this time. However, if Canada Post fails by 1990 to achieve its objectives of service and financial self-sufficiency, privatization should then be re-considered.**

C. Exclusive Privilege and Private Sector Competition

The *Canada Post Corporation Act* (Sections 14 and 15) provides that the Corporation shall have the sole and exclusive privilege of collecting, transmitting and delivering letters within Canada. However, such privilege does not extend to items such as magazines, books or parcels and there are certain other exceptions under the Act which limit the exclusive privilege. There is also provision for competitors to carry letters of an urgent nature but the competing carrier must charge a rate at least three times that of the postage applicable to letters weighing 50 grams.

Exclusive privilege has been provided to ensure that the Post Office will carry the great majority of all letters sent by Canadians. It protects the Corporation's markets and renders it relatively invulnerable to "creaming" by competitors who could — if there were no such barriers — offer services within large metropolitan areas where substantial revenues are available while avoiding any obligation to provide similar service in sparsely populated areas. If the Corporation is to survive and if universal service at uniform rates is to be maintained, the exclusive privilege is a requisite.

The term "privilege", however, has been well chosen by Parliament in enacting the legislation. It is just that. The Corporation should not be guaranteed that the privilege will stay in place indefinitely if service performance and financial self-sufficiency are not achieved.

Evidence abounds on the growth of private competition in delivery of parcels and correspondence. The Yellow Pages section of telephone directories in metropolitan areas across the country carry several pages of advertisements for courier services providing local, regional, national and international delivery. Even the airlines have entered the field with considerable success. This development can be attributed largely to the failure on the part of the Post Office to convince its customers that it can consistently deliver important parcels and communications on time.

The frequency and threat of strikes and walkouts has interfered with the mails considerably over the last decade, although to a much lesser extent since the creation of the Corporation. Companies and individuals are reluctant to entrust the Post Office with much of the traffic now carried by private couriers. Moreover, because couriers select their markets, they often offer more attractive pricing and more reliable delivery commitments. On the other hand, if the Post Office were to withdraw from the parcel business, for example, private sector couriers would be unlikely to provide replacement service to rural or remote communities unless they were able to charge a much higher rate than that now charged by Canada Post.

The cost of entry into the courier business can be minimal for entrepreneurs in large urban areas. They require little more than an investment in a communications system and small vehicles or, as frequently is the case, nothing more than contracting with owner/drivers of such vehicles. More substantial investments are required for inter-urban, regional and national courier services. In these latter cases, the airlines, specialized freight carriers and bus companies tend to dominate. These carriers can be very efficient and even go so far, in some cases, as to provide money-back guarantees of on-time deliveries.

Despite the higher rates of private couriers, to the extent that Canada Post continues to be perceived as unreliable and subject to processing delays, damage to shipments and interruptions through strikes, private carriers will continue to capture more of the mail business in densely populated areas. The danger is that the Post Office will become the carrier of last resort in urban areas but, because of the high cost, will remain the only agency serving rural and remote areas.

The success of private sector carriers in attracting loyal customers raises fundamental questions about the preservation of Canada Post's monopoly, its "exclusive privilege" to carry letter mail. Under the *Act*, Canada Post alone is entitled to carry letters at First Class rates. Carriers who intrude into this exclusive privilege are subject to penalties. Removal of the exclusive privilege would permit competing services to challenge the revenue base of Canada Post Corporation. The result would be a marked reduction in the Corporation, severe dislocation for its employees and greater public reliance on the private sector to move goods and information.

A complete elimination of the monopoly in Canada would not appear desirable. Canada Post would be reduced to the carrier of last resort.

The Committee recommends that:

11. The Corporation's exclusive privilege for First Class mail be maintained until 1990 and its extension beyond that date be dependent on its ability to provide reliable, efficient and effective service and achieve financial self-sufficiency. In the event of labour stoppages or lock-outs by the employer, the exclusive privilege should be suspended for the duration of such interruptions.

D. Role of the Board of Directors

There is little doubt that the Corporation offers one of the greatest management challenges in Canada today. It is confronted by serious financial difficulties, has one of the worst labour relations climates in the country and faces intense competition from couriers and from burgeoning technology. At the same time, it operates in the full glare of public interest and suffers from political intervention.

Typically, in the private sector, the Board of Directors plays a major role in any turn-around situation. If a turn-around is to be achieved in Canada Post, the Board itself must be up to the challenge. In short, the Board needs strengthening and should be modelled on the private sector where the Board is accountable for both the interests of the Corporation and the shareholder. It follows that the role of the Chairman of the Board should similarly be modelled on the private sector with respect to being the link between the Corporation and the shareholder and with respect to participation in operations. The Board must enjoy the full confidence of the shareholder and be entrusted with the levers of power normally associated with its role in industry. The Board should have the right to select the Chief Executive Officer and hold him or her accountable, as does the Board of Governors of its American counterpart, the United States Postal Service.

The Board, once it is given a clear mandate from the shareholder, should spell out the service and financial objectives set for the Corporation. It should also be charting the future of the Corporation and taking steps to ensure that it will be able to offer gainful employment to its workers in the decades ahead.

To succeed, the Corporation must be free from political interference. It should be as much at arm's length from Government as possible. To achieve this, the contact and reporting mechanism should be from the Board of Directors to the Government through a Minister who, ideally, retains responsibility for the Corporation throughout the Government's term of office. The Board must have the confidence of the Minister and the Minister must be able to rely on the Board through its chairperson to be kept accurately informed on the Corporation's progress or lack thereof.

Since the Corporation was created, it has had two members of the Board of Directors drawn from the ranks of organized labour. Canada Post Corporation may benefit from the wisdom and insight that can be gained from having experienced labour leaders amongst its directors. However, these positions should not be filled (as they have been) from the active leadership of the postal unions. This Committee believes it is unreasonable to expect the leader of any postal union to serve on the Board. The obvious potential for conflict makes it virtually impossible for an individual to adequately serve these two constituencies.

Clearly, it is imperative that all Directors follow the principle enunciated in the *Canada Business Corporations Act* in describing the role of a Board of Directors. That is, they must act and be seen to act in the best interest of the Corporation. They cannot, in complying with this requirement, serve two or more conflicting masters.

The Committee recommends that:

12. The Board of Directors of Canada Post Corporation be strengthened both in membership and authority.

13. Membership of the Board be drawn from senior and experienced executives.

14. **The responsibilities of the Chairman of the Board be modelled on the standards of the private sector in regard to representing the Corporation to its shareholders and with respect to the level of participation in the operations of the Corporation.**

15. **Management be fully accountable to the Board for performance.**

16. **The Board have the right to hire, fire and adjust the compensation level of the Chief Executive Officer.**

E. Financial Self-Sufficiency

The legal mandate of Canada Post as expressed in Section 5, Sub-section 2 of the *Canada Post Corporation Act* requires the Corporation to maintain basic customary postal service and have regard to services, human resources and financial self-sufficiency. In this case, financial self-sufficiency means the discontinuance of the Corporation's reliance on the public purse except insofar as the Corporation is directed by Government to provide services that it would not otherwise provide or to charge less for services than is required to meet its costs.

At present, the Corporation's deficit is covered by a transitional subsidy which is scheduled to end after 1985-86. It also receives $55 million a year to compensate for its unrecoverable costs in extending Second Class rates to publishers at less than cost. A further $170 million is being paid annually by Parliamentary vote to finance the adjustment of its infrastructure on Second Class mail. This amount is to decline to $100 million in 1986-87 and to be removed thereafter. Canada Post is not compensated for providing Parliament itself with free postal service valued at about $10 million a year. Under current Government planning, the Corporation will receive no Government funding other than the $55 million a year Second Class mail subsidy beyond 1986-87.

These subsidies were established at the time of the creation of the Corporation. Targets for the reduction each year of the transitional subsidy were negotiated by the Corporation and the Government. These targets were set at $400 million in 1982-83, $300 million in 1983-84, $350 million in 1984-85, $200 million in 1985-86, and nothing in 1986-87. Actual reported deficits were $262 million in 1982-83, $306 million in 1983-84, and $347 million in 1984-85.

The targets have imposed an important discipline on the Corporation for both its management and employees.

Implicit in any discussion of self-sufficiency is the assumption that the users of the postal system will pay the total cost of the services provided. The acceptable exception to this 'users-pay' position is that specific limited subsidies may be provided to accomplish public policy objectives. The amount of such subsidy is for Parliament to determine, as it has in the past in the case of Second Class mail. Beyond this type of exception, however, the Committee is agreed that the cost of the postal system should be borne by its users. It is the users — particularly the business community which generates about 80% of all mail — who determine both the volume and type of mail and thus create the demands on the Corporation. Charging the users cost-based rates will ensure the most rational use of the mails as a medium of communication, particularly when choices are available.

It is apparent that the Corporation will not break even in 1986-87 without additional Government subsidies. There are a number of reasons for this. One is the over-optimism about the Corporation's ability to generate additional business revenue and to contain costs. Another is the difficulty in obtaining proposed rate increases. As well, the Corporation has placed far too great a reliance on potential yields from new ventures such as the extension of electronic mail services and the revitalization of its parcel business.

One area where the Corporation could earn new income is by receiving interest on its cash float. The nature of its operations results in it having large cash balances from prepaid postage and other sources amounting to some two to three hundred million dollars at any point in time. Although the Act permits the Corporation to enter into banking arrangements, the Minister of Finance, because it operates at a deficit, requires that Canada Post deposit its cash in the Consolidated

Revenue Fund where it does not earn interest. In return, the Corporation does not pay interest on its short term borrowings from the Consolidated Revenue Fund. It is not clear which party benefits most from this arrangement. Nonetheless, receiving and paying interest would be a more business-like approach, would provide a more accurate picture of the Corporation's finances and, at the same time, would be an incentive for astute financial planning.

Any ongoing company must expend funds on capital investments to preserve its assets or replace them over time. Canada Post Corporation, with net assets in excess of $1.3 billion, excluding land, has spent an average of about 3.7% of that amount on capital expenses annually since incorporation. The Corporation should commit sufficient capital funds to maintain the efficiency of its operations. Its asset base is not being adequately maintained. Ultimately, this ensures the running down of the Corporation. It merely delays major expenditures which are currently beyond the Corporation's capacity to fund.

Included in the assets provided to the Corporation at the time of its creation were land and buildings located across Canada. Some of this real estate is located in prime downtown locations which, at an earlier time, may have been imperative for efficient postal operations. However, a modern postal system can function quite effectively from locations more removed from the centres of cities. Accordingly, there exists a considerable potential for the Post Office to divest itself of many of its downtown holdings and use the funds obtained to acquire more suitable premises in less valuable locations.

The Committee, therefore, recommends that:

17. The Corporation continue to be required to be financially self-sufficient in order to relieve taxpayers of the need to subsidize users of the postal system, beyond those subsidies specifically provided for by Parliament.

To this end, the Committee further recommends that:

18. The Corporation be reimbursed by the Government of Canada for all parliamentary free mail and other activities dictated by considerations of public policy.

19. The Corporation be allowed to manage its funds in order to take advantage of interest earnings on its cash float. Correspondingly, the Corporation should be required to pay interest on its short term borrowings from the Government of Canada.

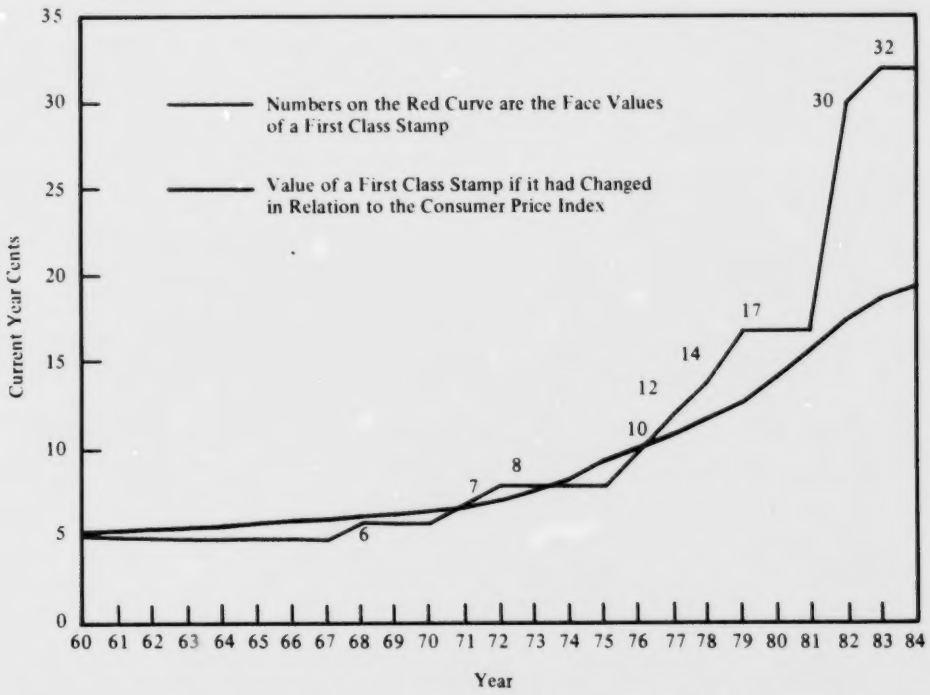
20. The Corporation be encouraged, once it achieves financial self-sufficiency, to raise its capital borrowing requirements in the private capital markets and that capital expenditures be justified on a cost-benefit or cross-subsidization basis.

F. Third Party Regulation

Throughout the recent history of the Post Office, dating from 1960, rate increases have been erratic and unpredictable. As detailed in Chart 4, rates remained static for as long as seven years before beginning to move upward in a more regular pattern in the mid-1970s. The process of rate review by the old department culminated at Cabinet level. As a result, decisions on the timing of increases were, understandably, always highly dependent on political considerations.

CHART 4

Comparative Changes in the Face Value of a First Class Letter Stamp and the Consumer Price Index



When the Canada Post Corporation was established, the *Act* provided for a more expeditious process for revising rates. It called for publication of the proposed new rates in the *Canada Gazette* and submission to the Governor-in-Council (the Cabinet) followed by a maximum delay of 60 days before Governor-in-Council approval. Nonetheless, the opportunity continues to exist for interest groups to exert pressure on the Cabinet in anticipation of forthcoming rate increases. It is also possible for Cabinet to discourage the Corporation from making applications for rate increases.

This is an intolerable situation for a Corporation charged with the responsibility of becoming financially self-sufficient and faced with rising costs of labour and other services. Corporate financial planning requires a reasonable expectation of matching revenues to costs. Alternatively, if the Corporation is to be constrained in any way from seeking rate increases, it must be free to reduce its costs. Unfortunately, here too political considerations have prevented the Corporation and

its predecessor from reducing costs by, for example, shutting down uneconomical small post offices. It is the prerogative of Government under the legislation on Crown corporations in the *Financial Administration Act* to give direction to Canada Post Corporation. It is, therefore, quite legitimate for the Government to direct the Corporation not to shut down small post offices. However, if such direction results in cost to Canada Post, the Government should provide adequate compensation.

Both the U.S. and Australian postal services refer proposed postal rate increases to a third party. This has the advantage of removing the question from the political arena. A similar insulation of Canada Post from potential political intervention would give the Corporation greater flexibility in tailoring its rate structure to its revenue requirements and to market forces. A frequent complaint of major users of the postal system at our hearings was that rate increases are introduced without sufficient warning, thus impairing ability to budget for the increases. They urged that at least 6 to 12 months notice should be given before new rates are imposed. Third party rate regulation would provide early warning to users of impending increases.

There would, of course be difficulties in the short term in introducing third party regulation of postal rates. The biggest of these problems would be the need for the Corporation to justify its proposals in the face of objections from postal users. To do so, it will require solid information on its costs of doing business. Canada Post Corporation does not have, at present, sound procedures for determining and analysing costs. Developing costing methodology for a system as complex as Canada Post will take time, probably two or three years, and consume scarce personnel and financal resources. This should not be allowed to delay the implementing of third party regulation.

It must be noted that there are significant costs associated with third party rate regulation. Whichever regulatory body is chosen (the Canadian Transport Commission (CTC), the Canadian Radio and Telecommunications Commission (CRTC), or a new agency created for this purpose) it would need resources of as much as $3.5 million per year and as many as 40 staff members to do the job. The Corporation would also require qualified expert staff capable of preparing applications and responding to challenges from intervenors. The Corporation's costs would probably be similar to those of the regulatory agency.

Finally, although third party rate regulation would be of value in any event, it would be of much greater advantage to the Corporation if it were not ultimately subject to appeal to Cabinet as are the current decisions of both the CTC and the CRTC. If Ministers are to be shielded from pressure to block postal increases — and, by inference, the increased risk of having to continue subsidizing Canada Post — decisions of the regulatory body should be appealable only to the Courts and then only within specific limitations provided for by law.

Furthermore, the regulatory body's function, as is the case in the United States, should not be discretionary. It should be limited to setting rates that are justified by the Corporation's mandate, particularly its mandate to operate a financially self-sufficient postal service.

The Committee therefore recommends that:

21. The Corporation be regulated in its rate increases by a neutral third party regulatory agency, and that the third party be limited in its regulation to the compliance of the Corporation with its mandate for self-sufficiency.

22. There be no appeal to Cabinet from decisions of the third party regulator.

G. Labour Relations at Canada Post

The members of the Committee are unanimous in agreeing that they have never seen labour relations in any jurisdiction that are as acrimonious as those that exist between Canada Post Corporation management and the postal unions. They are poisonous to the point of the potential destruction of the enterprise. There is a clear lack of trust on the part of each side — management and labour. The relationship is more reminiscent of a class war than any kind of pursuit of mutual objectives.

In some cases, management initiatives such as the mechanization program and the construction of large metropolitan area postal plants with up to 26 acres under one roof have been poorly implemented, and consequently created hostility with employees. Similarly, union rigidity on work rules has hampered management's ability to staff economically, to meet surges in the mails or to improve productivity. Both these elements have worked to the financial detriment of the Corporation.

Contract interpretation disputes become the source of friction throughout the duration of contractual agreements. Thousands of grievances are filed by the major unions annually. There can be little doubt that the large number of grievances registered by the key unions has a negative effect on productivity. During the fiscal year 1984-85, the Canadian Union of Postal Workers (CUPW) filed a total of 20,797 grievances while the Letter Carriers Union of Canada (LCUC) filed 4,001 and the other three CLC affiliated unions filed a total of 1,712. In the first quarter of the current fiscal year, the rate at which grievances are being filed has risen substantially: CUPW has filed 7,039, the LCUC 3,453 and the other three unions combined 752. Not only is the total number of grievances excessive by most industrial standards but the ratio of disputes referred to arbitration is also high. For example, in the fiscal year 1984-85, more than 6,700 grievances were referred to arbitration by the CUPW. It must be noted that the unions claim the volume of grievances arise out of management ignoring the terms of the collective agreements and that health and safety conditions in the plants are poor. Management, on the other hand, maintains that excessive use is made of the grievance machinery.

Processing of grievances is time-consuming for both union leadership and management. At Canada Post this problem is perhaps exacerbated by the fact that employees are represented by not less than eight bargaining agents and 26 bargaining units. A dispute with even the smallest of unions can potentially bring the whole mail system to a standstill. With bargaining units negotiating at different times as their contracts expire, it is not difficult to visualize an almost constant series of "windows" during which strikes could occur. The situation is a problem for management in having to contend with successive negotiations. It is also a problem for employees who, having settled their own negotiations, are vulnerable to breakdowns in the negotiations of other units. It is also extremely disruptive to consumers who, for the most part, still rely on the mails for their correspondence.

Many people urged the Committee that the right to strike should be removed from postal employees. The Committee is not of the view that the clock can be turned back in this way. The challenge is to reconcile the interests of Canada Post and its workers.

Union criticism of Canada Post has often focused on first line supervisors who are themselves unionized as members of the Association of Postal Officials of Canada (APOC). Incidentally, the Committee doubts the wisdom of supervisors — and postmasters — being unionized.

Management criticism of the unions centres on a perceived rigidity of work rules and performance measurement. Both parties appear oblivious to the ultimate result of their enduring conflict and to the fact that the course they are on will in the end lead to the demise of Canada Post as we know it. Such an outcome is inevitable unless the climate of labour-management relations improves dramatically. Everyone will lose.

The Committee is aware of the growing trend of corporations to enhance their training programs at all levels. The Committee believes that Canada Post should increase the emphasis it gives to training. The U.S. Postal Service, for example, has established a management academy, now officially designated the William F. Bolger Academy, to provide supervisory, managerial and specialized training programs for postal employees. During 1984, the Academy offered 83 different courses and trained almost 20,000 students. While the U.S. Postal System has approximately twelve times the number of employees that the Canadian system has, nonetheless, Canada Post's ongoing needs for both management and specialized training are large enough to sustain a continuing program of this type. The cost of such training should be regarded as an investment in more effective operations.

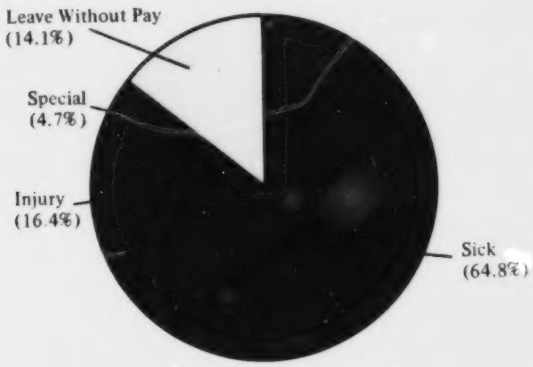
One major area of current concern relates to the union response to management's efforts to reduce absenteeism. Management has determined that absences, due to illness or on the job injuries in Canada Post, are substantially higher than in either the public or private sectors of the economy. Comparisons with data on the U.S. Postal Service indicate that Canada Post Corporation employees consume roughly twice as much sickness and injury leave as do their U.S. counterparts. Sick leave and injury leave utilization, when examined on a divisional basis within Canada Post, shows wide variations but, in general, it consistently runs at twice the regional level of both industry and the public service. The unions, in response to management's questioning of the reasons for absences on sickness or injury leave, allege harrassment and persecution of their membership. They also contend that sick leave is a negotiated benefit and that employees who conserve it, get no compensation for unused sick leave on retirement. In this respect, it is interesting to note the American experience. The U.S. Postal Service has embarked on an aggressive accident prevention scheme which has apparently worked well. Also, U.S. Postal Service employees are encouraged to accumulate unused sick leave which is then applied as a credit against their pension entitlement on retirement. While this system cannot be directly applied in Canada by virtue of the difference in pension plans, its use as an incentive to conserve sick leave appears to have been successful in the U.S. Since introduction of the scheme in 1980, absenteeism has declined by over 15%.

Chart 5 demonstrates that in 1984 CUPW workers were absent 16 days on average due to illness or injury on the job, LCUC workers were away 17 days, and all Canada Post employees averaged about 16.5 days. This contrasts with approximately 7.5 days for workers in the transportation, utilities and communications sector; slightly less than 6 days in the commercial services sector (which includes employees of private sector courier services); 8.5 days for public administration employees; and 6 days for all sectors of the economy. These data include workers in manufacturing plants such as automobiles, steel making, the mining industry and similar sectors whose working environment might be expected to be at least as dangerous as that of the Post Office, if not more so.

It is also very evident in looking at absentee statistics that there are major differences among the nine geographical divisions within Canada Post. While the unions have argued that the absentee record in Canada Post is largely a result of on-the-job injuries, it is difficult to understand the variations among the postal divisions. CUPW frequency of sick and injured absences in 1984, for example, showed approximately 20 days in the Montreal and Rideau Divisions (Ottawa and District) while running approximately half that in the Mid-West Division (Northern Ontario, Manitoba and Saskatchewan) and two-thirds in the Atlantic, Pacific and Foothills (Alberta and N.W.T.) Divisions. The statistics for LCUC workers are similar while those of APOC are somewhat better as can be seen from Charts 6, 7, and 8.

CHART 5

Percentage of All Leave, Other Than Vacation, Total Canada Post Employees



1984 Sick and Injury Leave for CPC Employees and Other Economic Sectors

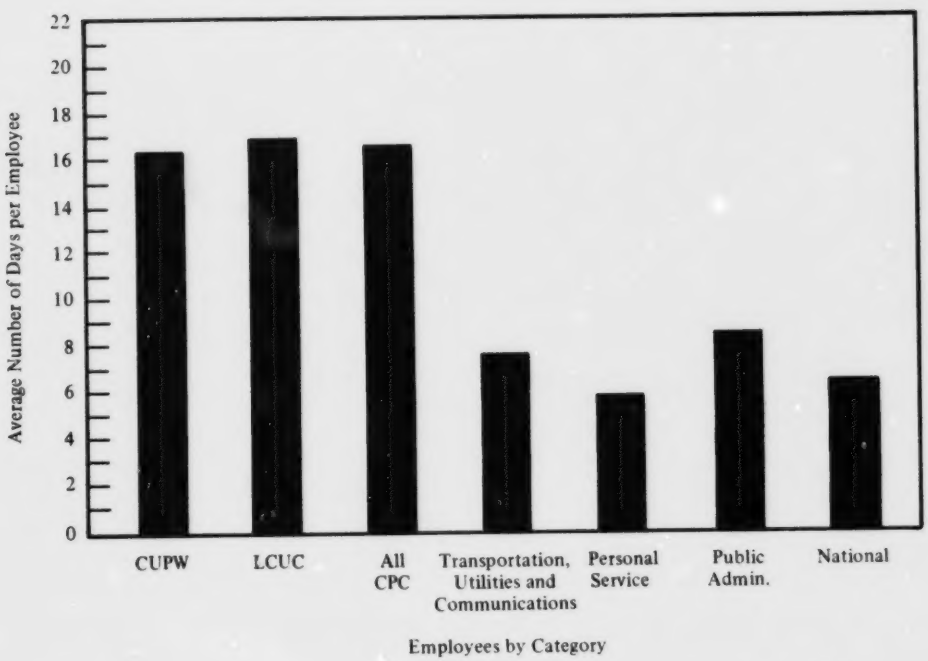
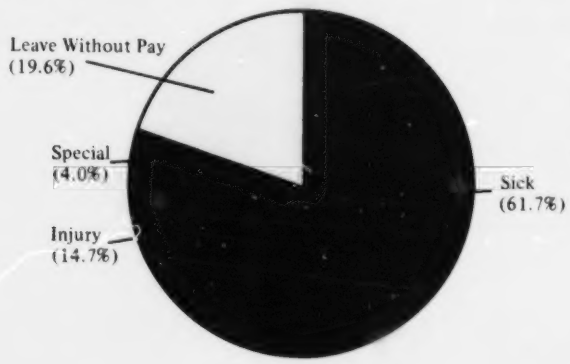


CHART 6

Percentage of All Leave, Other Than Vacation, for Canadian Union of Postal Workers Members



1984 Sick and Injury Leave – Canadian Union of Postal Workers (CUPW)
Comparing Industrial Averages in Provinces/Regions to Canada Post Divisions

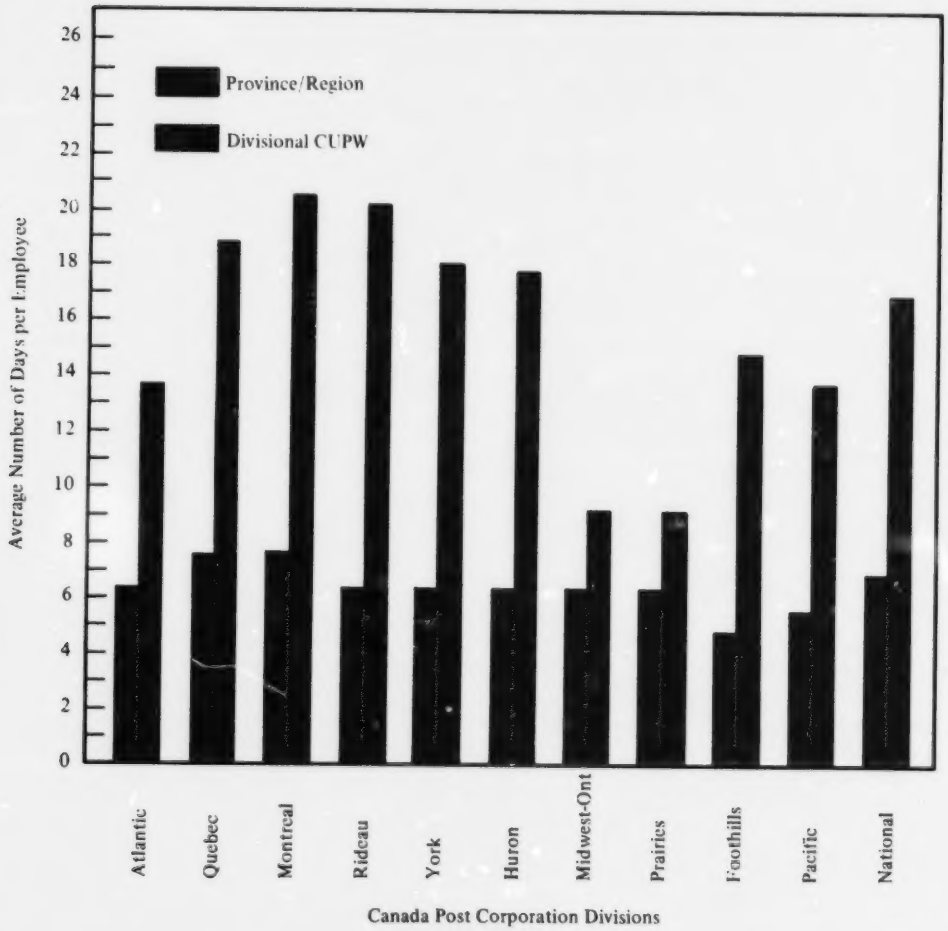
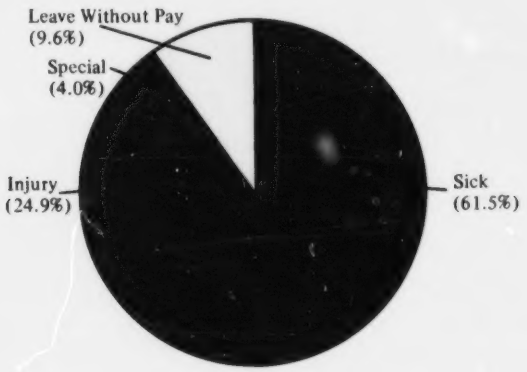


CHART 7

Percentage of All Leave, Other Than Vacation, for Letter Carriers' Union of Canada Members (LCUC)



1984 Sick and Injury Leave – Letter Carriers' Union of Canada Members (LCUC)
Comparing Industrial Averages in Provinces/Regions to Canada Post Divisions

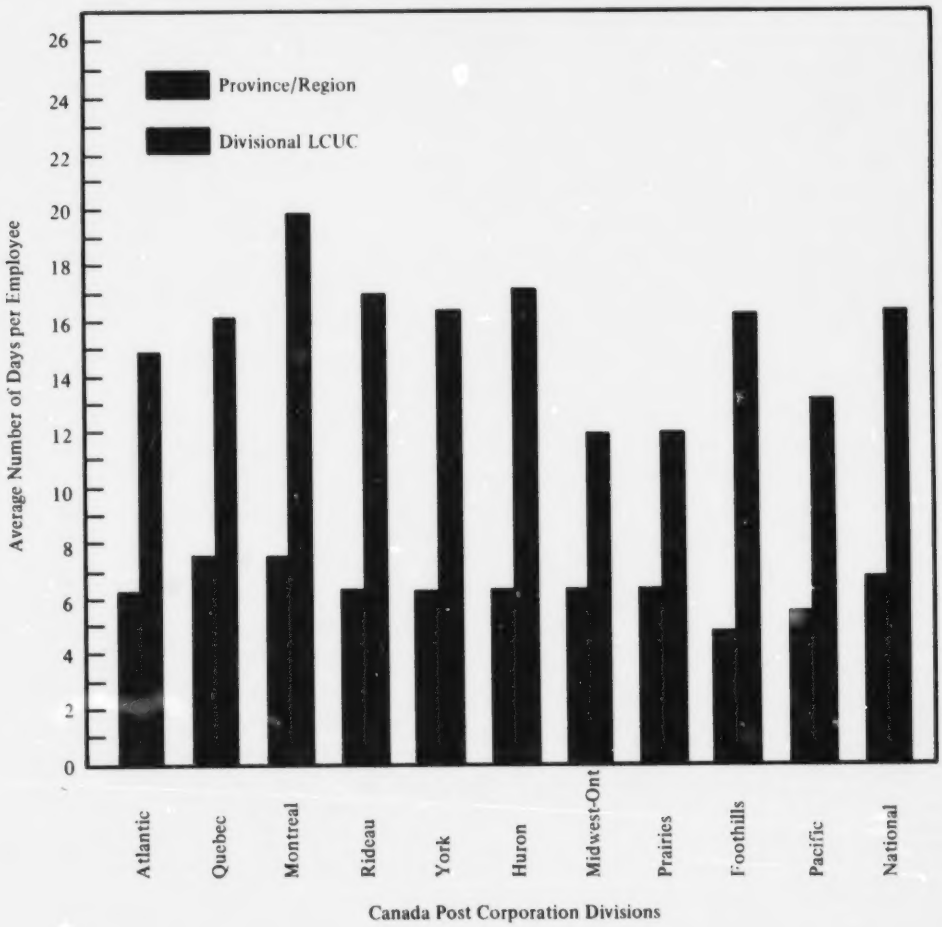
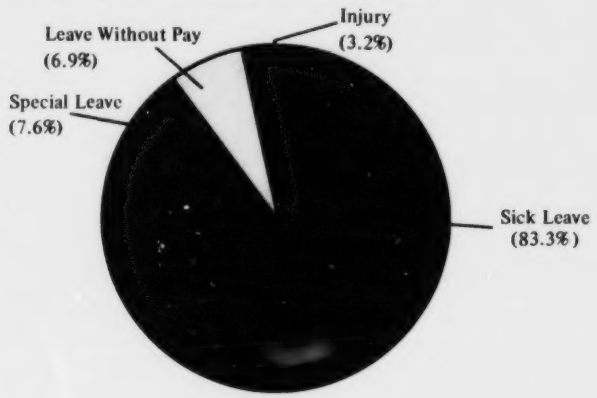


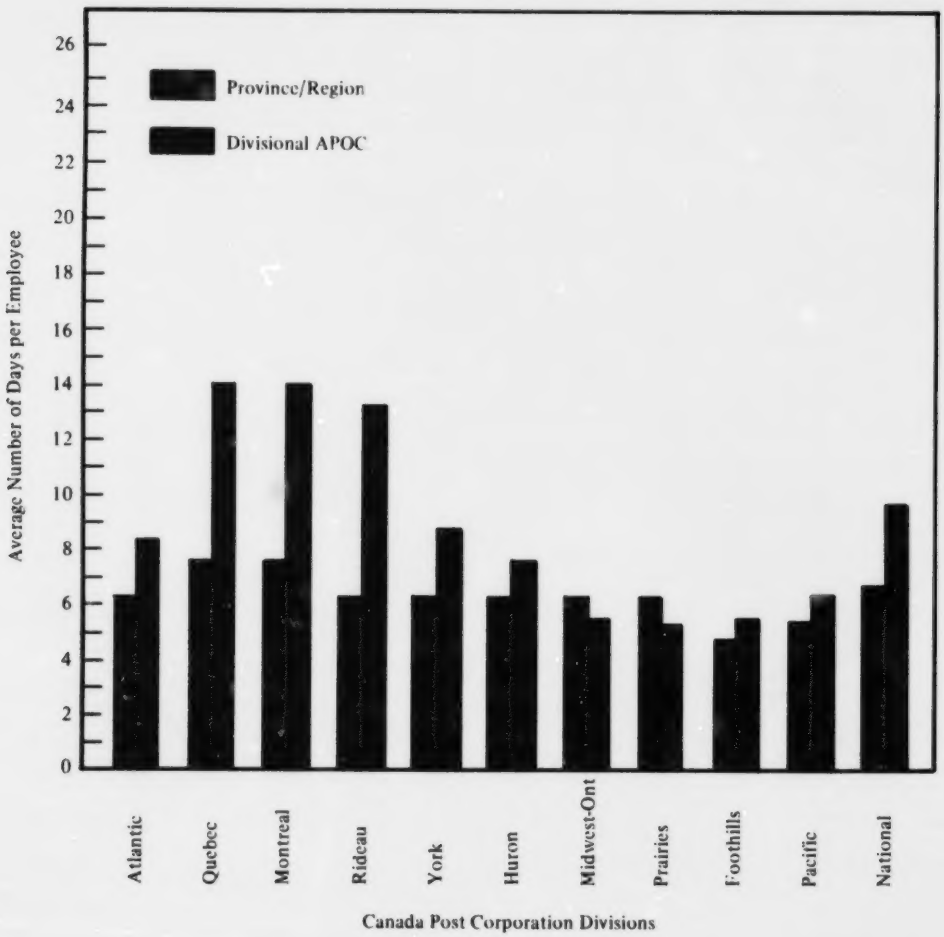
CHART 8

Percentage of All Leave, Other Than Vacation, for Association of Postal Officials of Canada Members (APOC)



1984 Sick and Injury Leave – Association of Postal Officials of Canada Members (APOC)

Comparing Industrial Averages in Provinces/Regions to Division



The Committee recommends that:

23. The Corporation jointly with its unions seek to develop new methods of consultation and co-operation which will permit the settlement of issues of importance to either group outside of the grievance procedures mechanism.

24. The Corporation explore with its major unions, opportunities for improving the quality of working life in postal plants and the possibility of introducing incentives to reward employees for improved productivity.

25. The Corporation work closely with its major unions to identify hazardous work areas and conditions and take the necessary steps to improve health and safety conditions in the work place.

26. The Corporation take steps in its negotiations with postal unions to eliminate restrictive clauses impeding the achievement of efficiency in operations.

27. The Corporation in co-operation with the unions reduce absenteeism to normal industrial levels.

28. The Corporation examine its management structure with a view to reducing the number of levels between employees and top management.

29. The Corporation establish a postal service college for the delivery of supervisory, managerial and specialized training programs. This should result in individuals receiving a certificate of completion equivalent to a diploma.

30. The Corporation should give high priority to rigorous and continuing job training programs.

31. Steps be taken to consolidate the number of unions in Canada Post.

The Committee also recommends that:

32. The Government develop a contingency delivery system for the movement of mail in case of national emergency.

Further recommendations that impact on labour relations will be made at the end of the next section which deals with productivity and overlaps with this section.

H. Productivity at Canada Post

One of the fundamental problems in managing the Post Office relates to the fact that mail activity is determined not by the process, but by customers who may create surges which impact on the ability of plants to cope with unforeseen demands. At such times, additional workforce should be added in order to maintain acceptable performance targets. However, matching the workforce to the mail flow is made difficult by various provisions in the collective agreements governing the use of part-time or casual staff when additional labour is required.

Unions have been remarkably successful in achieving gains for their membership well beyond those found in comparable public service and private sector employment. This is not a criticism of the unions who should seek to maximize the benefits for their rank and file, nor is it criticism necessarily of management which may have tried to withstand pressures from employees in combating strikes only to have settlements dictated by Government responding to public pressures in the national interest. As can be seen from Chart 9 it is clear that wage costs have risen at a far more rapid rate than mail volume and other operating costs such as transportation. It is important to note that the U.S. Postal Service is required by law to compensate its employees at rates that are comparable to those paid in the private sector. Some union leaders who appeared before us, however, stated that the Canadian differential was justified by the unique nature of the work.

Between 1963 and 1984, mail volumes requiring processing increased by a total of 25% while operating costs (excluding personnel costs) expressed in *constant dollars* increased by approximately 75%. Personnel costs on the other hand, rose much more rapidly, more than tripling in *constant dollars* in the same period. Increases in personnel costs during the period were attributable to both growth in the total number of employees and to increases in wage rates.

Similarly, operating costs per million units of mail (including personnel, transportation, accomodation, and other elements) more than doubled in constant 1960 dollars, rising from approximately $65,000 at the beginning of the period to in excess of $140,000 (115%) in 1984, despite the introduction of mechanization in the mid-1970s (see Chart 10). In short, Canada Post has become increasingly inefficient in mail processing while at the same time facing intensified competition from the private sector and major inroads into its base business by technological change.

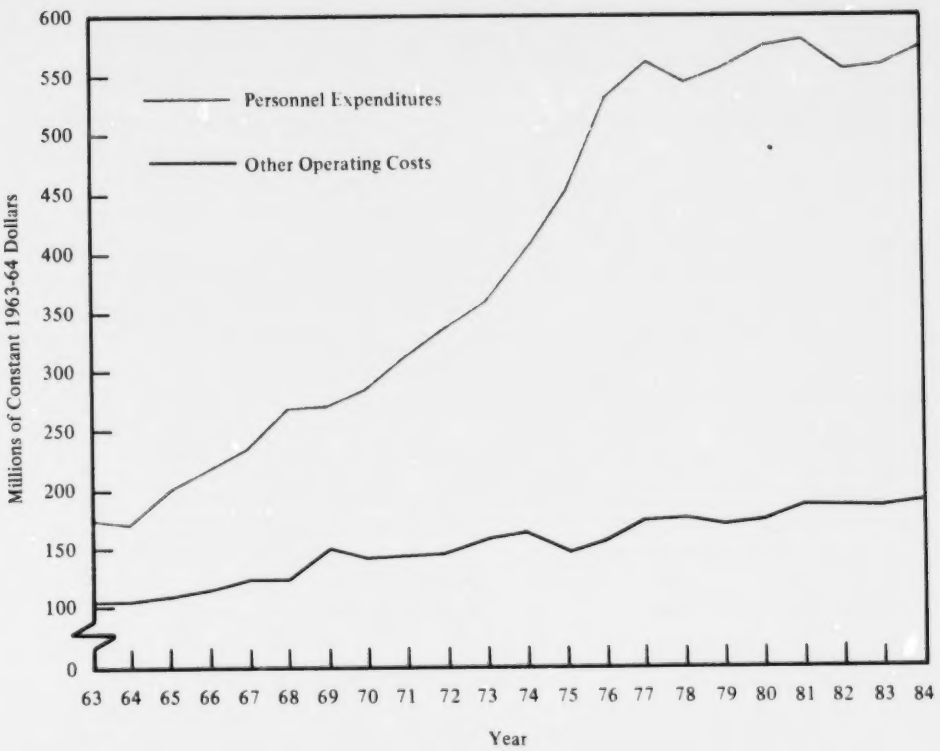
It is interesting to contrast Canada Post productivity with that of its U.S. counterpart over the past dozen years. In 1972, both systems were roughly equivalent in processing of units of mail in constant dollars. By 1984, however, the U.S. output had oustripped Canada's by more than 50% (see Chart 11).

The Corporation is hampered in effectively responding to competition by a lack of adequate costing data. At the moment, the Corporation is in the process of completing a major costing study on Second Class mail. While it has plans to develop similar costing systems for other classes of mail, completion of such studies will take a considerable period of time. As a result, some of its growth areas (notably Third Class unaddressed mail) may be underpriced and may not be generating the revenues needed to achieve an adequate return on its handling.

A commission of approximately 1.9 cents per piece is given to letter carriers for delivering Third Class unaddressed mail. Letter carriers can earn substantial extra income from this source. This may actually work to the detriment of other higher priority classes of mail. Letter carriers faced with large volumes of all types of mail may be tempted to defer delivery of heavier Second Class mail in order to earn the additional income available from commissions on Third Class unaddressed mail.

CHART 9

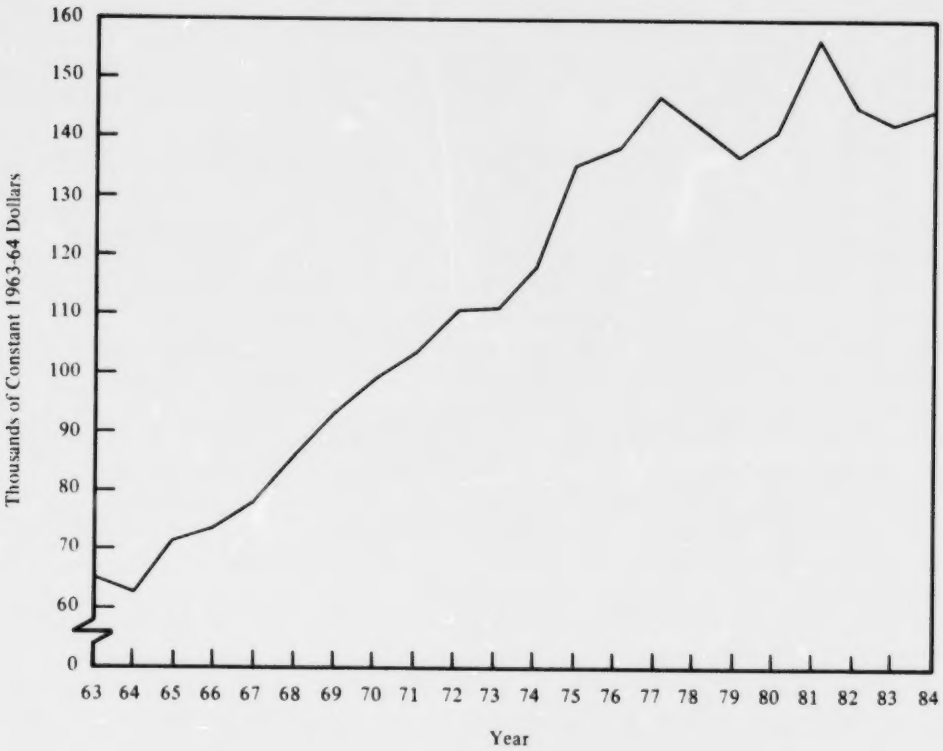
Personnel and Other Operating Costs
1963-64 to 1984-85



Productivity in the Post Office is difficult to measure since related revenue and cost data is lacking. As a consequence, present data cited by the Corporation to indicate improvements in efficiency, while useful in limited specific areas, must be regarded with scepticism as an indicator of general improvement in productivity. For example, when the total volume of worked mail is compared to the total person-years consumed, it is clear that a substantial fall-off in productivity occurred with the introduction of mechanization and that this has not yet been fully recovered. The prediction that equipment capable of processing thousands of letters per hour would greatly bolster productivity has not come to pass. Similarly the capacity for presortation has apparently not enhanced productivity. Large volume mailers are able to obtain substantial discounts on postage by presorting their mail before delivering it to the Post Office. Despite the fact that increasing numbers of such mailers take advantage of this discount, and that the Post Office's mechanized equipment greatly reduces handling of this presorted mail, productivity remains at lower levels than those recorded before mechanization. While no definitive analysis has been done to determine why output did not increase, it is clear that obstruction by the members of the Canadian Union of Postal Workers in carrying out their "ban the code" campaign did not help. On the other hand, training and consultation prior to implementation was insufficient to produce a smooth transition. Indeed, the sharp drop in efficiency of mail processing which coincided with the introduction of the new equipment suggests that, if this were the only variable, continuation of manual sorting operations might have yielded a higher level of productivity. (See Chart 12.)

CHART 10

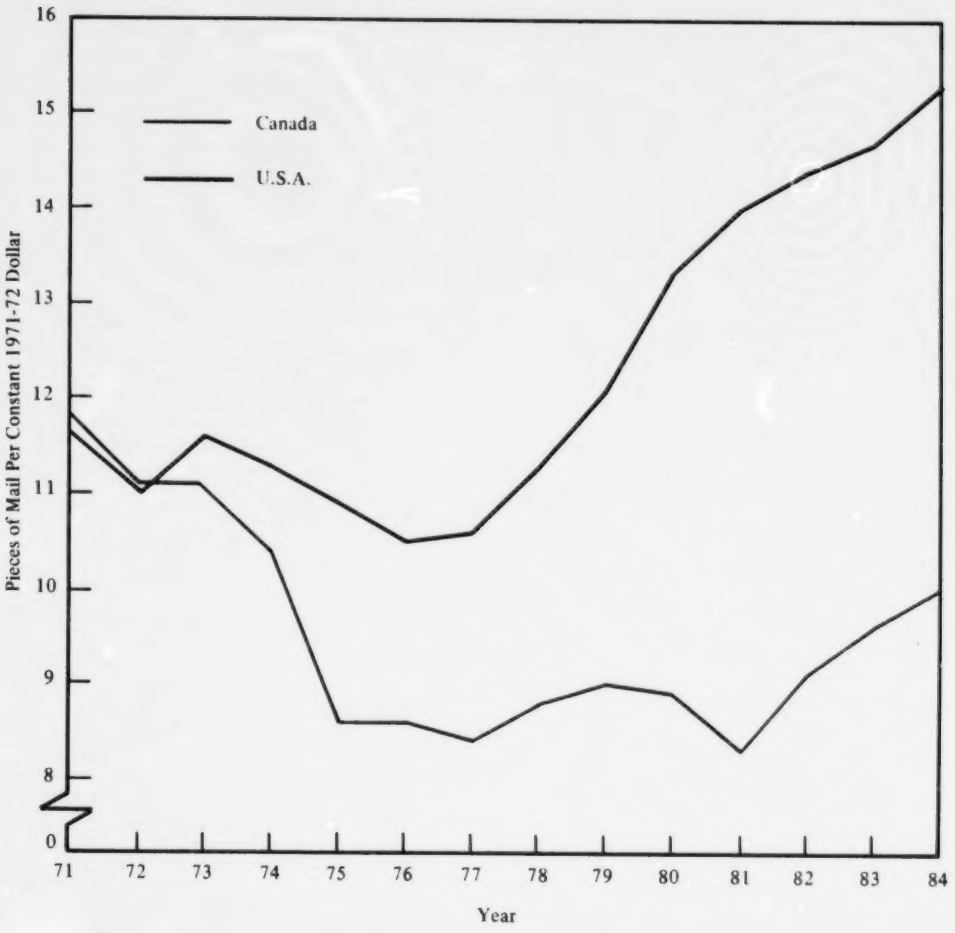
Cash Operating Costs per Million Pieces of Worked Mail
1963-64 to 1984-85



In this respect, it is interesting to note the Australian experience as related to the Committee by the Managing Director of Australia Post, Mr. D.H. Eltringham. The Australian Post Office, in moving into mechanization in the mid-1960s, built a large facility — the Redfern Plant — in Sydney to handle mail for New South Wales, the most mail-intensive state in the country. The plant was on the scale of some of the large Canadian plants which were built several years later. The Australians found that the plant was an "industrial monster". Standards of performance deteriorated and attempted remedies consistently failed. Australia Post decided in 1978 to close the Redfern Plant and decentralize. It spent almost $80 million to construct a number of small plants each having a workforce of about 450 employees. The experiment has worked. Not only have service levels been restored, but labour relations have improved dramatically.

CHART 11

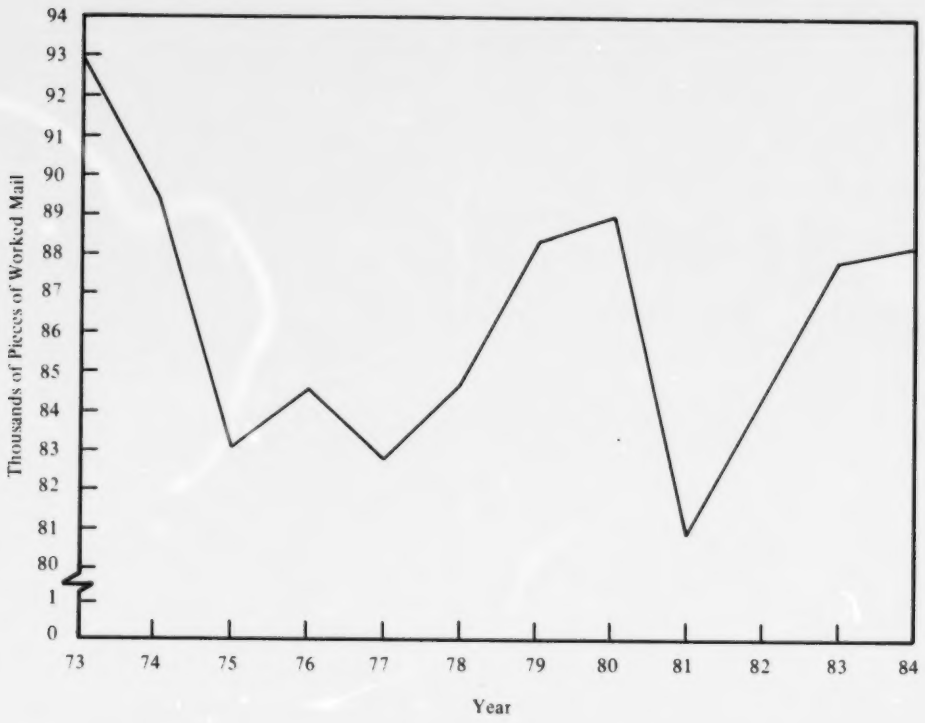
Pieces of Mail Per Constant Dollar of Total Personnel Compensation and Benefits



Some union practices certainly have an adverse effect on the ability of the organization to handle mail expeditously. For example, in the case of CUPW, seniority prevails in determining the shifts that inside sorters work. Newly hired sorters are typically assigned to the midnight shift where they remain until they acquire sufficient seniority to advance to the afternoon shift and ultimately to the day shift. This process takes several years. As a result, the most experienced sorters are usually those assigned by right of seniority to the day shift. Most of the mail handled in post offices is processed after the close of business and before the beginning of letter carrier delivery the following morning. Relatively little mail is, in fact, sorted during the day shift. Consequently, many of the most experienced sorters are assigned to counter duties, selling postage to the public. This is certainly not the most efficient use of their skills. While it is not management's perogative to interfere with internal union arrangements, it would be in the best interests of the Corporation and its employees to have its most capable resources used most effectively in ensuring the prompt handling of all mail.

CHART 12

Worked Mail Volumes per Person Year
1973-74 to 1984-85



In the same vein, existing contractual provisions in the letter carriers agreement give full-time letter carriers the first right of refusal in replacing other carriers who are absent on vacation or through illness. In other words, a letter carrier who has completed his or her own walk is entitled to pick up an absent colleague's bag and do at least a portion of that individual's walk. The substitute carrier is paid time and a half for the additional work. If this rule did not apply, the Corporation could replace absent letter carriers with casuals at straight time, and thereby save 50% on the direct incremental labour cost. In light of the high level of illness and injury leave for letter carriers, this restrictive clause carries a very high price for the Corporation and constitutes a benefit of major significance to the letter carriers. It also creates an incentive for maximizing frequency of absences.

It should also be noted that letter carriers, virtually alone among Canada Post employees are on an incentive pay scheme. They are assigned measured walks intended to require approximately eight hours of work to complete. The measurement is based on certain assumptions. First, that the individual proceed to and from the walk using public transit; second, that normal work breaks and lunch hours are taken; third, that they walk at a normal gait using sidewalks, driveways, etc. In fact, letter carriers often use personal transportation, walk at a fast pace, and cut across lawns and over hedges. As a result, it is not uncommon for a letter carrier to complete his or her assigned walk in four or five hours. There are no grounds for complaint, (except perhaps from irate

homeowners objecting to trespassing on lawns) insofar as the individual has given full value for a negotiated wage rate. The overtime priority clause, while also the result of negotiation, however, has much more serious implications. There are grounds for complaint when a carrier who, while still being paid for an eight-hour shift, goes on during that time to earn an additional time-and-a-half for three or four hours by delivering an absent colleague's route as well.

This system also creates a potential for delaying delivery of the mail. Replacement of an absent letter carrier by a casual, for example, ensures that the walk will be delivered on roughly the same schedule as it would have been had the absence not occurred. The necessity to offer overtime ensures that the mail on the un-manned walk will not be delivered until the replacement's own duties have been completed. While this may not be a great concern, in the case of residential walks, it can have serious consequences for business and commercial routes and provides, implicitly, further grounds for criticism of the Corporation and its staff.

Improving productivity must become the goal of all Canada Post employees, from the most senior executives down through the various levels of management (of which there are too many) to the first line supervisors, inside workers and letter carriers. When improving productivity is accepted as the goal, better service will follow. An incident which came to the Committee's attention demonstrates the point. The Committee interviewed a middle manager who, as a young supervisor, had some considerable success at a major postal station in motivating his people through incentives. His employees not only achieved much higher levels of productivity but also recorded lower rates of absenteeism and registered fewer grievances than before the experiment began. Unfortunately, the experiment which was based on allowing nightshift workers to go home early when their work was done, was brought to a halt, perhaps because the practise of some workers leaving before others was found to be disruptive. Nonetheless, it demonstrates that well-thought out incentives, universally applied, could be effective tools in improving productivity and service.

In light of these considerations and of the considerations outlined in the section on Labour Relations, the Committee recommends that:

33. **The Corporation, as quickly as possible, investigate the optimal size and location of postal plants to best serve the public.**

34. **The Corporation review the network of postal installations in light of current demographics with a view to making adjustments to assist in meeting reasonable service standards.**

35. **The Corporation investigate the use of incentives, including a team leader approach, to improve output and employee morale, particularly in mail processing.**

36. **The Corporation continue to contract the operation of sub-post offices and explore the feasibility of contracting out more of its ancillary services.**

37. **The Corporation reduce its overtime usage by greater reliance on improved scheduling of staff and use of part-time and casual workers to meet surges in demand.**

38. **The Corporation re-examine its employee suggestion award plan to ensure that adequate encouragement and recognition is provided for employees to generate suggestions which will improve productivity.**

I. Canada Post Competition With the Private Sector

It has been argued by the postal unions and some members of management that the Post Office should be free to compete vigorously with the private sector, even in non-postal areas, in order to maximize its revenues and ensure its survival. This was attempted in the Consumers' Distributing experiment where local post offices were used as catalogue outlets. It has also been urged on the Government for such areas as the payment of bills, financial services, wrapping parcels, sale of incidental items such as souvenirs and stationery. Assumptions have been made, though not supported by evidence, that such ventures would be profitable. However, large commitments of investment in staff and facilities would be required to test these theories. There would also be a risk that the Corporation, subsidized to the extent necessary to maintain its operations while exploring such business, would be competing unfairly with the private sector. Indeed, the Committee agrees with some of the Corporation's competitors who, while welcoming competition from Canada Post Corporation, urged that the Corporation be required to break even before being permitted to enter into other areas of activity in order to ensure that the Corporation's ventures are not unfairly subsidized by public funds.

The Committee is convinced that Canada Post must devote its energies to providing Canadians with a satisfactory level of service before it branches out into new activities. The Committee therefore recommends that:

39. The Corporation be allowed to compete in new market areas provided that competition is based on fair market costs without Government subsidy.

J. Parcel Post

It has been noted earlier that Canada Post has lost substantial volumes of parcel business over the last quarter century. The Corporation has prepared plans for very large investments to recapture parcel business, presumably attracting it away from railway express, airlines, bus companies and other private carriers. No evidence has been presented to the Committee that such investments would be justified by the expected returns.

The Committee, therefore, recommends that:

40. The Corporation make no investments in parcel post processing which will require a payback of longer than three years duration.

K. Technology and the Future of Canada Post

Coping with technological change is not new to the postal system. Since its earliest history, it has progressed through various modes of transporation, ranging from the primitive to the sophisticated. It has also had to cope with changing patterns of communications arising out of the growth of telecommunications. New means of communicating by using telegrams or telephones did not eliminate mail services but did materially affect the rate of growth. In spite of the continuing introduction of new communication technologies the volume of hard copy transmission has continued to increase at a moderate rate although it has been decreasing as a percentage of the total communications market.

More recently, rapid developments in micro-electronics have created almost unimaginable capabilities for rapid exchanges of information. One is forced to consider what the role of the Post Office is likely to be in the 21st century when micro-electronics capabilities have become cheaper and more widespread in their application.

Today, modern offices are able to communicate directly from computer to computer, either using electronic memory and/or hard copy printouts. Some systems have their own "electronic mail boxes". Correspondence received in the "mail box" is stored until requested by the addressee and can be filed for future reference. Links to high-speed printers can provide hard copy records almost instantly, if needed. Soon, we can expect to see technologically more advanced transmission of invoices, statements and other correspondence between businesses without reliance on either the mails or private courier systems.

Larger businesses may soon find it more economical to invoice electronically and recover payment by electronic funds transfer. In the meantime, many small businesses have organized their operations to permit them to deliver their invoices with the goods ordered and at the same time pick up payment for previous orders, thus bypassing the postal service. In short, business mail, which now constitutes more than 80% of postal volumes, is vulnerable to technological change. This may have serious implications for the postal service.

Consumers, too, can use technological developments to bypass the postal service. They may, for example, use the telephone or other electronic means of communication to authorize deductions from checking accounts to pay bills. Clearly, the Government cannot legislate against the march of technology and cannot prevent innovations from altering the demand for postal service.

The postal system is designed to transport hard copy, whether it be in the form of letters, bills, periodicals or advertising circulars. Some of this business is clearly less sensitive to changes in technology. There will no doubt be a continuing demand for the postal system to transport magazines, books, and newspapers in the foreseeable future. Changes in lifestyles and greater reliance on television may also limit growth. Competition from alternate advertising modes will continue to place an upper limit on the volumes of Third Class advertising mail.

The Post Office is left in a perplexing position. As it faces the uncertainties of the future market place, it is required to produce a product which is becoming less essential as time goes on. In such an environment, a private sector company would seek to diversify, thereby reducing its reliance on its most vulnerable product lines. The Post Office, however, exists to provide a relatively specific service to Canadians and has no mandate in law or in fact to diversify into unrelated business ventures. It has been argued that its function as a carrier of communications entitles it to broaden

its base into areas such as electronic mail. Canada Post has already introduced Telepost, Intelpost and Envoypost as initiatives into the world of non-traditional hard copy communication. Some of its senior management have suggested that it have a broader role; it might provide electronic communication in a non-hard copy format, ultimately perhaps resulting in ownership of its own communications satellite capability.

Such initiatives would require huge capital investments and would entail major risks. They also raise fundamental questions of public policy. Should the Post Office be entering a field already or potentially well served by the private sector, particularly if to do so it requires the investment of major public funds or continued subsidization? Also, if the Post Office remains dependent upon federal subsidies, should it be allowed to attempt to compete with other Canadian companies for a share of these other markets?

The Committee's answer to these questions is a categorical "No!" There is no defensible case for Canada Post Corporation, beset as it is by a poor track record in fulfilling its principal function of providing timely and efficient delivery of the mail, to enter into the field of telecommunications, a field which is already being efficiently serviced by others. Entry into this field would require huge capital investment. Canada Post has already indicated in its corporate plans that it would need capital of $791 million (that estimate may be low) with only nominal returns on the investment predicted for the next five years. In addition to the cost of servicing the debt created there would be a large new overhead burden for the corporation. There can be no doubt that such an undertaking would delay indefinitely any possibility of the Corporation attaining the goal of financial self-sufficiency. The Committee believes that to be unacceptable. Until the Post Office is meeting acceptable service objectives without subsidy, it should not be permitted to enter into major new endeavours. Even when it has achieved these goals, its entry into new fields should be decided on the basis of normal business criteria as to predicted returns on investment.

The Board of Directors of Canada Post, its management and its employees all have a stake in ensuring that the Corporation continues to exist well into the 21st century. Usually, survival implies continued growth or at least maintenance of the status quo. Downsizing is never an attractive option. It is particularly unattractive to an enterprise which does not have the potential of generating increased profits by reducing the scale of its operations. At present, Canada Post continues to experience some growth in mail volumes, but this is mainly in the area of Third Class unaddressed advertising mail, often referred to by the public as junk mail. Growth in mail volumes last year was almost entirely attributable to a 25% increase in Third Class unaddressed mail. This accounted for only 5.4% of Canada Post's total revenues. In the meantime, the level of First Class, Second Class, Third Class addressed and Fourth Class mail remained virtually static.

The Post Office has tried to make itself more effective in the past. In an attempt to retain as much of its business as possible in the face of changing technology and growing competition from carriers, it invested heavily in mechanization during the mid-1970s. As additional opportunities for automating occur, it may wish to mechanize further. Yet, failure to resolve its problems has plagued the organization. Strikes, wildcat walkouts, mis-directed mail, delays in delivery, loss and damage to mail and very high operating costs have made continuing subsidization by Government an essential part of the budget. If these weaknesses continue, the organization will remain vulnerable to technological advances which provide greater incentives for entrepreneurs to offer competing, technologically assisted services.

The Committee recommends that:

41. The Government implement direct funds transfer for its social program payments on a voluntary basis to ensure timely receipt of payments.

42. The Corporation not enter the telecommunications business, but that it respond to developments in that field that can be implemented economically within the postal system to enhance its services.

L. Legislative Mandate

The Committee's terms of reference specifically directed it to assess the legislative mandate of Canada Post Corporation under the *Canada Post Corporation Act*. There are certain weaknesses in the Act which need to be addressed. Perhaps the most glaring of these is the definition of the purpose and mandate of the Corporation. The mandate is expressed in an ambiguous manner and in various unrelated places beginning with Section 5 which is quoted in the introduction to this report. The U.S. Postal Service legislation, by comparison, is a good example of precise legislative drafting. It spells out the purpose and mandate of the U.S. Postal Service in various sections but unlike the *Canada Post Corporation Act*, each section deals with a subject area in an exhaustive manner, and the sections combined provide a coherent, comprehensive and clear mandate.

For example, Section 101 of the U.S. *Act* sets out "Postal Policy" as follows:

> (a) The United States Postal Service . . . . shall have as its basic function the obligation to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people. It shall provide prompt, reliable and efficient services to patrons in all areas and shall render postal service to all communities. The costs of establishing and maintaining the Postal Service shall not be apportioned to impair the over-all value of such service to the people . . .
>
> (b) . . . . No small post office shall be closed solely for operating at a deficit, it being the specific intent of the Congress that effective postal services be insured to residents of both urban and rural communities.
>
> (c) As an employer, the Postal Service shall achieve and maintain compensation for its officers and employees comparable to the rates and types of compensation paid in the private sector of the economy of the United States . . . .

The U.S. Postal Service is given a monopoly not unlike that given Canada Post Corporation, qualified by provisions for the functions of private letter carriers. In this respect, the U.S. *Act* provides that, in addition to other requirements, any letters carried by private carriers must bear postage stamps of the appropriate value for that type and weight of letter. These postage stamps must be cancelled and the letter dated by the private carrier. In this way, the U.S. Postal Service collects as much money from letters sent by private sector carrier as it would had the sender used the Postal Service.

In order to enable the Postal Service to carry out its mandate, the U.S. *Act* has given the Commission the tools needed for that purpose. For example, Section 3621 states that the Governors of the U.S. Postal Service, i.e. its directors, are authorized to establish reasonable and equitable classes of mail and reasonable and equitable rates of postage and fees for postal services in accordance with the provision of the chapter . . . . Postal rates and fees shall provide sufficient revenues so that the total estimated income and appropriations to the Postal Service will equal as nearly as practicable total estimated costs of the Postal Service. For purposes of this section, "total estimated costs" shall include . . . . operating expenses, depreciation on capital facilities and equipment, debt service . . . and a reasonable provision for contingencies."

Similarly, the U.S. *Act* is quite clear on the role and responsibility of their Board of Governors. Thus, Section 202 of the *Postal Service Act* provides that:

> The exercise of the power of the Postal Service shall be directed by a Board of Governors composed of 11 members . . . . Nine of the members, to be known as Governors, shall be appointed by the President, by and with the advice and consent of the Senate, not more than 5 of whom may be adherents of the same political party . . . . The Governors shall be chosen to represent the public interest generally, and shall not be representatives of specific interests using the Postal Service . . . . The Governors shall appoint and shall have the power to remove the Postmaster General, who shall be a voting member of the Board . . . .

The Postmaster General is the Chief Executive Officer of the U.S. Postal Service.

The Committee is of the opinion that a clearly worded legislative mandate would be a useful instrument in enabling the Canada Post Corporation to improve its own performance appreciably. The Committee, therefore, recommends that:

> **43. The *Canada Post Corporation Act* be amended to provide a clear statement of the purpose and mandate of the Corporation, consonant with the recommendations contained in this report, and to give the Board of Directors the responsibility and authority to fulfil that purpose and mandate.**

PART IV

Conclusion and Summary of Recommendations

The Corporation needs greater insulation from political and governmental interference. It must also have greater continuity of direction. Ministerial changes have been excessively frequent and this has been disruptive to the continuity of leadership and direction. Since 1970, the average length of time that a Minister has had responsibility for the Post Office has been slightly more than 22 months, barely long enough to come to an appreciation of the complexities and problems of managing such a vast enterprise. The operation of the Post Office is probably the most serious management problem other than the economy facing the Government. It calls for the attention of a Minister who can become familiar with both its leadership and its problems.

The Board of Directors of the Corporation is only moderately effective. It has fewer powers than those generally held by the Boards of private corporations. The position of Chief Executive Officer is a political appointment rather than a prerogative of the Board of Directors. There is no stated requirement, as there is in the United States Postal Service, that directors are to be selected to represent the interests of the Corporation and are prohibited from doing otherwise. The present Board has two labour members, one of whom represents a union within Canada Post. This latter case has caused unnecessary friction on the Board.

The Corporation needs a strong Board of Directors. Its members should be drawn from amongst the most senior and experienced managers and labour representatives in the country. Labour representatives on the Board should not be from unions representing postal employees. Management should be accountable to the Board for performance. To make this effective, the Board must have the authority to hire and fire and adjust the compensation level of the Chief Executive Officer. They should also be given a clear understanding of the mandate which the shareholder has assigned to the Corporation and should themselves be held accountable to the Government for ensuring that the mandate is exercised effectively.

For at least the last decade and a half, many Canadians have been dissatisfied with the level of service they have received from the Post Office. The formation of Canada Post Corporation was a step taken to address this problem. Although much has been accomplished, the primary goal has not been satisfied. The public's interests continue to be placed second to the interests of the Corporation and its employees. Even while this Committee was conducting its review, Canada Post chose to introduce new programs and publicity to persuade the public it was doing something good for them, while the basic service itself was not improving.

With satisfactory service to the public, Canada Post should experience growth in First and Second Class mail even though its share of the total communications market may continue to decrease due to alternate methods of communication brought about by advances in technology.

Most fundamentally, if the Corporation is to survive into the next century, it must have real collaboration between management and labour and a complete change in the attitude of hostility and distrust which now prevails. Both management and labour must recognize that their futures are intertwined. If Canadians are not soon given, at fair cost, the level of service they need and want, they will increasingly continue to turn to alternate if not competitive modes of communication to the detriment and ultimate demise of the Corporation. Some people have already characterized the Canadian postal system as a dinosaur en route to extinction.

In other industrialized countries, the postal system seems healthy and vigorous and self-sufficient. There is no reason why Canada Post cannot achieve similar success if the efforts of management and labour are unified and directed towards a common cause. To achieve this will require committed and progressive leadership from both management and union executives. There must be a concerted effort towards improving the work environment and towards seeking more efficient ways of handling the mails. Morale must be improved to the point where postal employees are no longer embarrassed to admit that they work for the Corporation.

Financial self-sufficiency is a desirable goal and is accepted by other Post Offices such as those of Australia and the U.S. as being achievable and in their interest. Neither of these Post Offices have the adversarial labour relations characteristic of Canada Post. It is necessary to ensure that better relations are established immediately so that all the goals of the original mandate can be achieved. If this cannot be done by 1990, then this Committee recommends that the Post Office monopoly be phased out, leaving it as a delivery service of last resort.

If the Corporation is to have a future it must focus on improved service to the public and this can only come about by both management and labour acting in unison. This will require greatly improved relationships so that effective teamwork may ensue. A major consolidation of the present number of unions would contribute substantially to better communications. Concerted effort will have to be directed towards improving the work environment and towards seeking new and more efficient ways of handling the mail.

It would not be unreasonable for employees to share in the benefits of an effective postal system once it achieves self-sufficiency. One of the advantages of a Crown corporation over a department of government is that performance bonuses and profit sharing can be instituted to reward performance. In the meantime, other incentives should be explored as a means to stimulate employee interest in their work and to give them greater satisfaction in good performance.

The Corporation should be able to deal with its assets in an effective way to maximize economies in operation and service to the public. This might include closing large plants and establishing new, smaller plants better located to serve its customers. Privatization would be premature at this time as would independent borrowing by the Corporation before it has an established record of earnings.

The basic ingredients for a vibrant and healthy Post Office are continuity of ministerial direction, a strong Board of Directors setting the pace for a competent executive team dedicated to providing reliable service, and a healthy spirit of co-operation between management and labour. With these in place, management and labour will be able to identify common goals and work towards their achievement. Canadians are not an unreasonable people. They will recognize effective service when it is provided and will gladly pay a fair price to use it. With effective service at acceptable cost, the Corporation will not only survive, it will flourish. Conversely, without dramatic improvement in labour-management relations, service will not improve, costs will continue to escalate and Canadians will abandon the Post Office in favour of other means of communication.

Summary of Recommendations

1. The primary goal of the Corporation be the provision of a consistently reliable service within acceptable standards for First and Second Class mail.

2. An acceptable level of service for First and Second Class mail be defined as two days maximum for local mail, that is, mail originating and being delivered within the same city; three days maximum for intra-regional mail, i.e. within the same province; and four days maximum from coast to coast.

3. Canada Post publicly display in all Post Offices its delivery standards by various classes of mail and report on its achievements against such standards in the quarterly report required under the provisions of the *Financial Administration Act*.

4. All contractors carrying mail for Canada Post be required by law to treat the mail as their first priority.

5. Canada Post develop a more reliable system for measuring on-time delivery performance from mail box to recipient and that this performance measurement be done by independent external researchers on non-renewable three year term contracts to ensure greater objectivity.

6. Greater emphasis be given to internally auditing compliance with corporate policies relating to service and to evaluating the effectiveness of systems and policies for mail processing and delivery. The effectiveness of these internal audit procedures should be reviewed by the external auditor. In addition, the internal auditors should have a divisional presence, be responsible to headquarters and report at least annually to the Audit Committee of the Board of Directors.

7. Canada Post should give priority to the development and marketing of present services.

8. Communities in urban areas which do not enjoy daily door-to-door delivery be consulted with a view to offering the choice between alternate day letter carrier service or daily mail service through the use of group, community or post office boxes.

9. As soon as the Corporation is financially self-sufficient, Canada Post cease charging customers for the rental of post office boxes where letter carrier service is not provided.

10. Privatization not be considered at this time. However, if Canada Post fails by 1990 to achieve its objectives of service and financial self-sufficiency, privatization should then be re-considered.

11. The Corporation's exclusive privilege for First Class mail be maintained until 1990 and its extension beyond that date be dependent on its ability to provide reliable, efficient and effective service and achieve financial self-sufficiency. In the event of labour stoppages or lock-outs by the employer, the exclusive privilege should be suspended for the duration of such interruptions.

12. The Board of Directors of Canada Post Corporation be strengthened both in membership and authority.

13. Membership of the Board be drawn from senior and experienced executives.

14. The responsibilities of the Chairman of the Board be modelled on the standards of the private sector in regard to representing the Corporation to its shareholders and with respect to the level of participation in the operations of the Corporation.

15. Management be fully accountable to the Board for performance.

16. The Board have the right to hire, fire and adjust the compensation level of the Chief Executive Officer.

17. The Corporation continue to be required to be financially self-sufficient in order to relieve taxpayers of the need to subsidize users of the postal system, beyond those subsidies specifically provided for by Parliament.

18. The Corporation be reimbursed by the Government of Canada for all parliamentary free mail and other activities dictated by considerations of public policy.

19. The Corporation be allowed to manage its funds in order to take advantage of interest earnings on its cash float. Correspondingly, the Corporation should be required to pay interest on its short term borrowings from the Government of Canada.

20. The Corporation be encouraged, once it achieves financial self-sufficiency, to raise its capital borrowing requirements in the private capital markets and that capital expenditures be justified on a cost-benefit or cross-subsidization basis.

21. The Corporation be regulated in its rate increases by a neutral third party regulatory agency, and that the third party be limited in its regulation to the compliance of the Corporation with its mandate for self-sufficiency.

22. There be no appeal to Cabinet from decisions of the third party regulator.

23. The Corporation jointly with its unions seek to develop new methods of consultation and co-operation which will permit the settlement of issues of importance to either group outside of the grievance procedures mechanism.

24. The Corporation explore with its major unions, opportunities for improving the quality of working life in postal plants and the possibility of introducing incentives to reward employees for improved productivity.

25. The Corporation work closely with its major unions to identify hazardous work areas and conditions and take the necessary steps to improve health and safety conditions in the work place.

26. The Corporation take steps in its negotiations with postal unions to eliminate restrictive clauses impeding the achievement of efficiency in operations.

27. The Corporation in co-operation with the unions reduce absenteeism to normal industrial levels.

28. The Corporation examine its management structure with a view to reducing the number of levels between employees and top management.

29. The Corporation establish a postal service college for the delivery of supervisory, managerial and specialized training programs. This should result in individuals receiving a certificate of completion equivalent to a diploma.

30. The Corporation should give high priority to rigorous and continuing job training programs.

31. Steps be taken to consolidate the number of unions in Canada Post.

32. The Government develop a contingency delivery system for the movement of mail in case of national emergency.

33. The Corporation, as quickly as possible, investigate the optimal size and location of postal plants to best serve the public.

34. The Corporation review the network of postal installation in light of current demographics with a view to making adjustments to assist in meeting reasonable service standards.

35. The Corporation investigate the use of incentives, including a team leader approach, to improve output and employee morale, particularly in mail processing.

36. The Corporation continue to contract the operation of sub-post offices and explore the feasibility of contracting out more of its ancillary services.

37. The Corporation reduce its overtime usage by greater reliance on improved scheduling of staff and use of part-time and casual workers to meet surges in demand.

38. The Corporation re-examine its employee suggestion award plan to ensure that adequate encouragement and recognition is provided for employees to generate suggestions which will improve productivity.

39. The Corporation be allowed to compete in new market areas provided that competition is based on fair market costs without Government subsidy.

40. The Corporation make no investments in parcel post processing which will require a payback of longer than three years duration.

41. The Government implement direct funds transfer for its social program payments on a voluntary basis to ensure timely receipt of payments.

42. The Corporation not enter the telecommunications business, but that it respond to developments in that field that can be implemented economically within the postal system to enhance its services.

43. *The Canada Post Corporation Act* be amended to provide a clear statement of the purpose and mandate of the Corporation, consonant with the recommendations contained in this report, and to give the Board of Directors responsibility and authority to fulfil that purpose and mandate.

Number/
Numéro

2

Report of the Review Committee on the Mandate and Productivity of Canada Post Corporation

APPENDICES

THE REPORT

of the

REVIEW COMMITTEE

on the

MANDATE AND PRODUCTIVITY

of

CANADA POST CORPORATION

November 1985

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Appendix I

Members of the Committee

The Chairman of the Committee, Alan Marchment, F.C.A., is President and Chief Executive Officer of Traders Group Ltd. and of Guaranty Trust Ltd. Mr. Marchment is a director of a number of large Canadian corporations and has had considerable volunteer involvement in the direction of educational, cultural and charitable organizations. Mr. Marchment is a resident of Toronto.

Louis R. Comeau is President and Chief Executive Officer of Nova Scotia Power. He is a former senior executive in the private sector and was Professor of Physics and Mathematics at College Ste. Anne. Mr. Comeau is a director of numerous corporations and educational institutions. Mr. Comeau resides in Halifax.

Alix Granger is an Investment Manager with F.H. Deacon-Hodgson. Mrs. Granger is also a sessional lecturer at Simon Fraser University and has written a number of books on financial management and was involved in planning a compulsory B.C. high school Consumer Education course. Mrs. Granger is on the Board of Directors of several charitable and educational organizations. She lives in Vancouver.

Julien Major is retired from his position as Executive Vice-President of the Canadian Labour Congress. Mr. Major has served as Canadian Legislative Director of the Canadian Paperworkers Union and was the first Social Services Director of the Québec Federation of Labour. Mr. Major, a resident of Stanbridge Station, Québec, was a founding Governor of the Université du Québec.

Fred H. McNeil, a rancher, is retired from the Bank of Montreal. He served as Chairman and Chief Executive Officer of the bank from 1975-81. Mr. McNeil was Director of Organizational, Personnel and Administrative Planning with the Ford Motor Company of Canada prior to joining the bank as General Manager, Personnel Planning. He is currently Chairman of Dome Canada and a director of several large corporations. Mr. McNeil now lives in Granum, Alberta.

Invitation to Submit Briefs

THE MINISTER RESPONSIBLE FOR CANADA POST CORPORATION

ANNOUNCEMENT

A Committee has been established by the Minister Responsible for Canada Post Corporation to review the Corporation's mandate and productivity, and to make recommendations to the Minister on the future requirements for a national postal system.

Persons who want their views to be considered by the Committee are invited to:

1. Notify the Committee of their intention by phoning (613) 990-3483 not later than July 23, 1985;

and to

2. Forward a brief in writing to Hon. Perrin Beatty, P.C., M.P., Minister Responsible for Canada Post Corporation, 7th Floor, Connaught Building, MacKenzie Avenue, Ottawa, Ontario, K1A 0L5, Attention: Review Committee.

When phoning the above number, please state your name, where applicable the organization you are representing, your home and business telephone numbers, and the key points of your submission in as short and concise a form as possible.

Persons whose submission the Committee will consider in detail may be asked to come to one of the hearings to be held in various cities across Canada, beginning the end of July.

COMITÉ DE RÉVISION DU MANDAT ET DE LA PRODUCTIVITÉ DE LA SOCIÉTÉ CANADIENNE DES POSTES

Un Comité de révision formé récemment par le ministre responsable de la Société canadienne des postes, l'honorable Perrin Beatty, C.P., député, a pour mission d'examiner le mandat et la productivité de la Société et de faire des recommandations au ministre quant aux besoins futurs du système postal national.

Toute personne désireuse de faire part de ses observations au Comité de révision est priée de le faire:

1. En avisant le Comité de révision par téléphone (613) 990-3483 au plus tard le 23 juillet 1985.

2. En faisant parvenir un mémoire à l'attention de l'honorable Perrin Beatty, ministre responsable de la Société canadienne des postes, Édifice Connaught, 7e étage, avenue MacKenzie, Ottawa (Ontario) K1A 0L3, attention: Comité de révision.

Les personnes qui feront part par téléphone de leur intention de faire des observations sont priées de donner leur nom, leur numéro de téléphone à domicile et au travail et, le cas échéant, le nom de la firme ou de l'organisme qu'elles représentent. Elles sont également priées d'indiquer aussi brièvement que possible la teneur des observations qu'elles souhaitent faire.

Le Comité de révision conviera les auteurs des mémoires choisis à venir assister à l'une ou l'autre des audiences qu'il tiendra dans diférentes villes canadiennes.

Appendix III

Methods of Calculating Canada Post Deficits

The annual deficits recorded in the corporate annual reports of Canada Post Corporation are based on a particular set of accounting practices. The principal impact of these practices in calculating the defict is that of three payments made to the Corporation from the Consolidated Revenue Fund of the Government of Canada, only one is attributed to covering the Corporation's deficit. The other two payments, covering the Second Class mail subsidy and the infrastructure subsidy, are reported as corporate revenue.

An alternate accounting practice would be to report all three payments as subsidies. This method would demonstrate more clearly the corporate demands on general revenues. A summary of revenues and expenses using this approach is attached. This model shows the Corporation's cash operating expenditures and cash receipts without subsidy. The excess of expenses over receipts gives the shortfall that is met from the Government's general revenues.

The highlights of the attached table are:

a) Operating expenditures increased over the previous year by 7.5% in 1982-83, 6.0% in 1983-84, and 7.2% in 1984-85.

b) Operating revenues increased over the previous year by 38.5% in 1982-83, 6.8% in 1983-84, and 4.5% in 1984-85. The large increase in 1982-83 was attributable mainly to the increase in postal rates that saw the basic letter rate rise from 17 cents to 30 cents.

c) The excess of expenses over postal revenues decreased by 44.7% in 1982-83, increased by 9.5% in 1983-84, and by 8.3% in 1984-85.

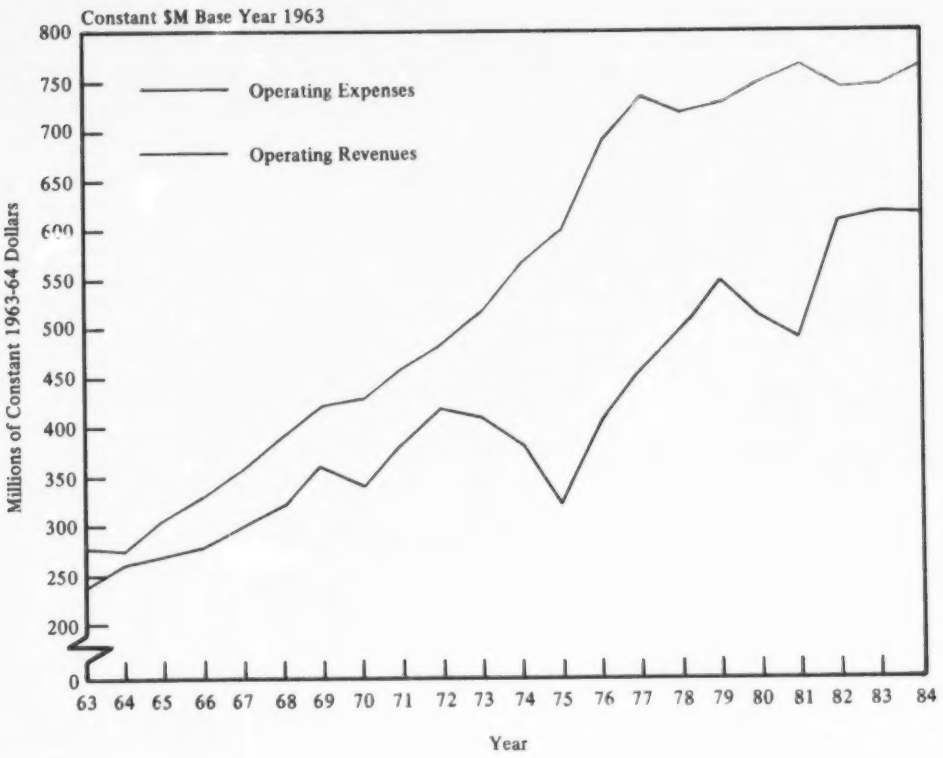
Canada Post Corporation — Postal Revenues and Cash Expenditures (Current Dollars)

	1981-82*	1982-83		1983-84		1984-85	
	$ million	$ million	% change from prior year	$ million	% change from prior year	$ million	% change from prior year
Postal Revenues							
Postage	1,358	1,883	38.7	2,027	7.6	2,119	4.5
Other	114	156	36.8	151	(3.2)	156	3.3
Total	1,472	2,039	38.5	2,178	6.8	2,275	4.5
Operating Expenditures							
Salaries and Benefits	1,747	1,859	6.4	1,976	6.2	2,120	7.3
Transportation, Travel, Communications	265	323	21.9	317	(1.9)	338	6.6
Accommodation	145	131	(9.7)	144	9.9	150	4.2
Other	150	168	12.0	193	14.9	210	8.8
Total	2,307	2,481	7.5	2,630	6.0	2,818	7.1
Capital Expenditures	39	41	5.1	77	87.8	30	(61.0)
Total Expenditures	2,346	2,522	7.5	2,707	7.3	2,848	5.2
Cash Deficiency Paid from Tax Revenues	874	483	(44.7)	529	9.5	573	8.3

* In fiscal year 1981-82 the postal service was a government department from April 1 to October 15, 1981 and a Crown corporation from October 16, 1981 to March 31, 1982.

CHART 13

Cash Operating Revenues and Expenses
1963-64 to 1984-85



Appendix IV

Canada Post Standards For "On-Time" Delivery

The Committe received from Canada Post Corporation the following statement of what the Corporation means when it refers to "on-time" delivery:

> For local mail; that is, mail originating and being delivered within the same city and meeting postal standards; service is considered "on-time" if it is delivered within one day from the date of posting. For example, 90% "on-time" local means 90% of the standard local mail was delivered no later than the day after mailing.
>
> For forward mail; that is, mail originating in one city (plant) and being delivered in a different city (plant), service is considered "on-time" if it is delivered within the number of days allotted, according to the service standards for each pairing of cities (or plants) — see attached service standards. For example, mail between the plants in Toronto (e.g. Toronto East to Toronto West) is "on-time" if it is delivered within one day from date of mailing; mail between Toronto and Ottawa is "on-time" if it is delivered within 2 days from day of mailing; and mail between Vancouver and Halifax is "on-time" if it is delivered within 3 days.
>
> National or Divisional summaries of "on-time" are based on the weighting of "on-time" performance across the different city pairings or links; and can therefore represent one day, two day or three day deliveries (depending on distances between plants).

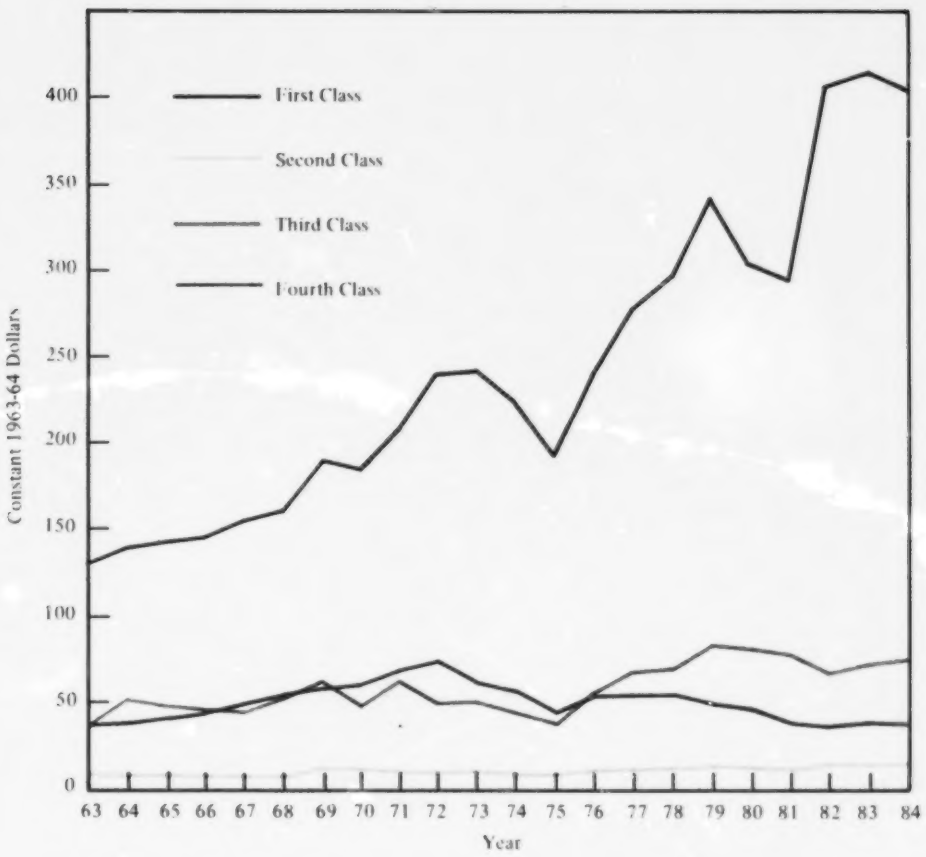
The following chart sets out the measurement standards for the delivery of mail between various centres in Canada as adopted by Canada Post for measurement purposes under the NEPS (National Evaluation of Postal Service) program.

First Class NEPS Measurement Standards

From	St-John's	Halifax	Saint John	Moncton	Fredericton	Charlottetown	Chicoutimi	Trois-Rivières	Québec	Sherbrooke	Montréal — Met	Montréal — Laval	Montréal — Centrvl	Hull	Brossard	Ottawa	North Bay	Sudbury	Burlington	Hamilton	St. Catharines	London	Windsor	Kitchener	Toronto — West	Toronto — East	Toronto — S.C.	Thunder Bay	Winnipeg	Regina	Saskatoon	Edmonton	Calgary	Vancouver	Victoria
St-John's	1	2	2	2	2	2					2					2											2								
Halifax	2	1	2	2	2	2			2		2	2	2			2											2		2			3	3	3	
Saint John	2	2	1	1	1	2					2					2											2								
Moncton	2	2	1	1	1	1					2					2											2								
Fredericton	2	2	1	1	1	2					2					2											2								
Charlottetown	2	2	2	1	2	1					2					2											2								
Chicoutimi							1	2	1	2	2	2	2	2	2	2											2								
Trois-Rivières							1	1	1	1	2	2	2	1	1	2											2								
Québec		2					1	1	1	2	2	2	2	2	2	2											2								
Sherbrooke							2	1	2	1	2	2	2	1	1	2											2		2			2	2	2	
Montréal — Met	2	2	2	2	2	2	2	2	2	2	1	1	1	2	1	2	2	2	3	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2
Montréal — Laval		2					2	2	2	2	1	1	1	2	1	2									2	2	2		2					2	
Montréal — Centrvl		2					2	2	2	2	1	1	1	2	1	2									2	2	2		2					2	
Hull							2	1	2	1	2	2	2	1	1	1											2								
Brossard							2	1	2	1	1	1	1	1	1	2											2								
Ottawa	2	2	2	2	2	2	2	2	2	2	2	2	2	1	2	1	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2
North Bay											2					2	1	2	2	2	2	2	2	2	2	2	2	2	2						
Sudbury											2					2	2	1	2	2	2	2	2	2	2	2	2	2	2						
Burlington											2					2	2	2	1	2	2	2	2	2	2	2	2	2	2						
Hamilton											2					2	2	2	2	1	2	1	2	2	2	2	2	2							
St. Catharines											2					2	2	2	2	2	1	2	2	2	2	2	2	2							
London											2					2	2	2	2	1	2	1	2	2	2	2	2	2							
Windsor											2					2	2	2	2	2	2	2	1	2	2	2	2	2							
Kitchener											2					2	2	2	2	2	2	2	2	1	2	2	2	2							
Toronto — West											2	2	2			2	2	2	2	2	2	2	2	2	1	2	2	2							
Toronto — East											2	2	2			2	2	2	2	2	2	2	2	2	2	1	1	1	2						
Toronto — S.C.	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	1	1	1	2	2	2	2	2	2	2
Thunder Bay											2					2	2	2	2	2	2	2	2	2	2	2	2	1	2						
Winnipeg		2							2		2	2	2			2	2	2									2	2	1	2	2	2	2	2	2	3
Regina											2					2											2		2	1	1	2	2	2	2
Saskatoon											2					2											2		2	1	1	2	2	2	2
Edmonton		3							2		2					2											2		2	2	2	1	2	2	2
Calgary		3							2		2					2											2		2	2	2	2	1	2	2
Vancouver		3							2		2	2	2			2											2		2	2	2	2	2	1	2
Victoria											2					2											2		2	2	2	2	2	2	1

CHART 14

Revenue by Mail Class in Constant 1963-64 Dollars



Analysis of Public Opinion Survey

Commentary

Despite internal achievements in efficiency and management-labour relations since October, 1981, Canada Post still has a long way to go to build public confidence in the Corporation.

Canadians have not registered much improvement in postal service; they have felt only the rate increases. And there is the sense that management-labour relations have declined rather than improved over the past four years.

People speak well of individual post office staff with whom they come in contact, but there is a lack of public good-will toward Canada Post itself. Canadians are not sufficiently sympathetic with the post office's deficit dilemma to accept further increases in postal rates or income taxes.

Canadians may be willing to accept a decrease in postal service, however, if they receive something in return. But any change in this area should be proceeded by an improvement in the public's perceptions of Canada Post both in terms of quality of service and cost.

New services are the route to generating extra income over the short term. Public opinion does support allowing the post office to compete with private sector services in areas such as courier services and also charging extra for guaranteed overnight delivery of first class mail. But since current usage of Canada Post's existing services, such as priority post, is fairly low compared to first class mail usage, any new service would need to be well publicized.

On basic policy issues such as who should operate the post office, pay for the deficit or set postal rates, public opinion is highly fragmented. This suggests that public reactions could be highly volatile to any new proposal.

Public Attitudes Toward
Canada's Postal Service

Environics Research Group Limited

1. METHODOLOGY

The Canada Post Review Committee commissioned two surveys; one among the general public and the other among businesses across Canada. This report highlights the results from the public opinion survey.

The Canada Post public opinion survey is based on a random sample of 1,515 adult Canadians, 18 years of age and older representing all regions in the country excluding the Yukon and the Northwest Territories. The sample is stratified by region and community size.

The survey was conducted by telephone from Tuesday, September 3rd to Thursday, September 19th, 1985. Interviewing in all provinces outside Quebec was conducted from Environics' central location telephone facilities in Toronto. Interviewing in Quebec was conducted by CROP Inc. from their telephone facilities in Montreal.

A sample of this size is estimated to be accurate within plus or minus 2.5 percentage points, 19 in 20 times. The margins of error are wider for the regional and demographic analysis.

2. CANADIANS' USE OF THE POSTAL SERVICE

2.1 Sending Mail

Over 60 per cent of the population uses the postal service at least once a week to send letters to friends or relatives or for other personal business like paying bills. One in ten Canadians send personal letters daily!

Frequency of Sending Personal Mail

Heavy	— Daily	11%
Moderate	— Several times a week	31
	— About once a week	20
Light	— A few times a month	27
	— Once a month or less	9
Don't use postal service		1

The types of postal services used for personal mail in the past year and the average frequency of use are as follows:

	Used in past year	Average number of times in last year
First class mail	95%	89.0
Registered mail	52	3.1
Parcel post	48	3.3
Special delivery	30	1.9
Priority post	12	0.8

2.2 Receiving Mail

Canadians receive mail more often than they send it. Three-quarters of the population receive mail at least once a week — 22 per cent receive mail daily.

Frequency of Receiving Mail

Heavy	— Daily	22%
Moderate	— Several times a week	38
	— About once a week	14
Light	— A few times a month	22
	— Once a month or less	3

The type of mail received varies somewhat by region; but overall, 80 per cent of Canadians received an invoice within the past week and 71 per cent received unaddressed household mail. Personal mail from friends or relatives is well down the list, followed by magazines and newspapers; all at around 50 per cent penetration within the past week.

The type of mail received in the past week:

Invoice, bill or statement	80%
Unaddressed householder/advertising mail	71
Personally addressed advertising mail	56
Letter/card from a friend or relative	52
Magazine	49
Daily or weekly newspaper	42
Parcel	15

Regionally, fewer people in Quebec received personal letters or cards, unaddressed householder advertising and, along with Maritimers, addressed householder advertising than Canadians in other parts of the country. Maritimers were also less likely to have received magazines or newspapers in the mail.

3. ATTITUDES TOWARD CANADA POST

3.1 Quality of Postal Service

The majority of Canadians are satisfied with the quality of their postal service. Sixty-two per cent are very or somewhat satisfied compared with 38 per cent who are very or somewhat dissatisfied.

The level of satisfaction is not constant across all regions of the country, however, and also varies by how frequently Canadians use the postal service.

— Regionally, over 80 per cent of Quebecers are satisfied with the quality of the postal service compared to just over 50 per cent for Canadians living in Ontario or the western provinces.

	Total Canada	Maritimes	Quebec	Ontario	Prairies	B.C.
Very satisfied	23%	35%	38%	14%	16%	13%
Somewhat satisfied	39	34	44	37	39	39
TOTAL SATISFIED	62	69	82	51	55	52
Somewhat dissatisfied	21	14	13	25	25	25
Very dissatisfied	17	17	4	23	19	23
TOTAL DISSATISFIED	38	31	17	48	44	48

— Among heavy users of the postal service, that is, those who send personal mail daily, less than 50 per cent are satisfied with the quality of the postal service.

	Heavy Users (Daily)	Moderate Users (Once/several times per week)	Light Users (Less often than once per week)
Very satisfied	16%	19%	29%
Somewhat satisfied	30	41	40
TOTAL SATISFIED	46	60	69
Somewhat satisfied	28	22	18
Very dissatisfied	25	18	13
TOTAL DISSATISFIED	53	40	31

— Whether Canadians live in small rural communities or large urban centres, they are equally satisfied (at 61 per cent) with Canada's postal system.

3.2 Cost of Postal Service

Canadians are divided in their perceptions of the cost of the postal service. Approximately half the population (48 per cent) say the cost of the service is reasonable while an equal number (50 per cent) say the cost is unreasonable.

Similarly, half the population think the current rate of 34 cents for sending first class mail is reasonable (51 per cent) while the other half (48 per cent) say the rate is unreasonable.

Perceptual variations by region and by level of postal service use are similar to those regarding quality. All groups across the country, however, are more positive about the quality of postal service they receive than they are about its cost.

— Regionally, Quebec residents are most likely to consider the cost of the postal service and the current first class mail rate to be reasonable. People in Ontario and the Prairies are least likely to consider the cost reasonable.

Cost of Postal Service (In general)

	Total Canada	Maritimes	Quebec	Ontario	Prairies	B.C.
Very reasonable	13%	17%	17%	9%	9%	14%
Somewhat reasonable	5	36	47	31	30	32
TOTAL REASONABLE	48	53	64	40	39	46
Somewhat unreasonable	26	22	26	28	27	24
Very unreasonable	24	24	8	30	34	29
TOTAL UNREASONABLE	50	46	34	58	61	53

Cost of Sending First Class Mail (34 cents)

	Total Canada	Maritimes	Quebec	Ontario	Prairies	B.C.
Very reasonable	15%	11%	22%	13%	9%	15%
Somewhat reasonable	36	31	46	32	33	40
TOTAL REASONABLE	51	42	68	45	42	55
Somewhat unreasonable	29	37	24	29	32	27
Very unreasonable	19	20	8	25	25	18
TOTAL UNREASONABLE	48	57	32	54	57	45

— Heavy users of the mail are most critical of the cost. Only 43 per cent consider the cost to be reasonable and one-third say the cost is very unreasonable.

Cost of Postal Service (In general)

	Heavy Users (Daily)	Moderate Users (Once/several times per week)	Light Users (Less often than once per week)
Very reasonable	12%	11%	14%
Somewhat reasonable	31	35	38
TOTAL REASONABLE	43	46	52
Somewhat unreasonable	19	29	26
Very unreasonable	37	25	20
TOTAL UNREASONABLE	56	54	46

Cost of Sending First Class Mail (34 cents)

	Heavy Users (Daily)	Moderate Users (Once/several times per week)	Light Users (Less often than once per week)
Very reasonable	13%	15%	16%
Somewhat reasonable	30	38	37
TOTAL REASONABLE	43	53	53
Somewhat unreasonable	24	30	29
Very unreasonable	33	18	18
TOTAL UNREASONABLE	57	48	47

3.3 Canada Post Employees

Outside postal workers (letter carriers and parcel post delivery men) are highly regarded by Canadians who have come in contact with them and have an opinion. Outside postal workers are seen as courteous, efficient, helpful and knowledgeable. Only 5 per cent or less of the population are critical of outside postal workers on any of the four dimensions measured.

Attitudes Toward Canada Post Employees

Letter Carriers	Positive		Negative	Both	NA/DK*
Courteous	56%	Not courteous	3%	4%	37%
Efficient	54	Not efficient	5	5	36
Helpful	53	Not helpful	4	4	39
Knowledgeable	47	Not knowledgeable	3	4	46
Parcel Post/ Mail Delivery Men					
Courteous	45%	Not courteous	2%	3%	50%
Efficient	43	Not efficient	3	4	50
Helpful	44	Not helpful	3	3	49
Knowledgeable	40	Not knowledgeable	3	3	54

*NA = Not Available
DK = Don't Know

The majority of Canadians are also positive in their attitudes toward inside postal workers but the frequency of criticism is higher than for outside postal workers. Almost one in five Canadians (18 per cent) feel that post office employees are not efficient; one in seven say that they are not courteous (14 per cent) or helpful (15 per cent).

Attitudes Toward Canada Post Employees

Post Office Employees	Positive		Negative	Both	NA/DK*
Knowledgeable	70%	Not knowledgeable	10%	11%	9%
Courteous	69	Not courteous	14	13	5
Helpful	67	Not helpful	15	12	5
Efficient	64	Not efficient	18	12	7

*NA = Not Available
DK = Don't Know

3.4 Quality of Service From a Sub-Post Office

Within the past year, 51% of Canadians have used a sub-post office in a store and, of these, virtually all (91 per cent) were very or somewhat satisfied with the quality of service they received.

4. DELIVERY EXPECTATIONS FOR FIRST CLASS MAIL

Canadians' expectations of how long it should take first class mail to get to its destination are as follows:

Within sender's own community:

One day	52%
Two days	34
More than 2 days	12
(Average: 1.6 days)	

From another community in the province:

One day	8%
Two days	37
Three days	33
More than 3 days	20
(Average: 2.8 days)	

From another province:

Less than 3 days	16%
Three days	29
Four days	22
More than 4 days	30
(Average: 3.9 days)	

From the other end of the country:

Less than 3 days	7%
Three days	18
Four days	18
Five days	19
Six days	7
Seven days	28
(Average: 4.8 days)	

From the United States:

Less than 4 days	19%
Four days	14
Five days	19
Six days	7
Seven days	21
Eight days or more	14
(Average: 5.7 days)	

From overseas (Europe, Asia, etc.):

Less than 7 days	18%
Seven days	21
Eight or nine days	6
Ten days	18
More than 10 days	25
(Average: 9.4 days)	

5. THE POST OFFICE AS A CROWN CORPORATION

5.1 Who Should Operate the Post Office?

There is no consensus among Canadians over who should operate the post office. Government ownership is favoured over privatization but Canada Post's current status as a Crown corporation receives less support than reverting back to operating the post offices as a government ministry or department.

The levels of support for the various operational alternatives:

Privately-owned company	31%	
Government ministry or department	28	52%
Crown Corporation	24	
Other	1	
Don't know	16	

— Heavy users of the postal system are most in favour of privatization (44 per cent).

5.2 Impact of Becoming a Crown Corporation on the Quality of Postal Service and Labour-Management Relations

Only 12 per cent of the population have noticed an improvement in the quality of postal service since the post office became a Crown corporation in October, 1981. Twice as many — 25 per cent — say that postal service has declined.

— On a regional basis, the sense that postal service has declined ranges from a low of 12 per cent in Quebec to a high of 36 per cent in British Columbia and increases as one moves west.

Change in Quality Service Since the Post Office Became a Crown Corporation

	Total Canada	Maritimes	Quebec	Ontario	Prairies	B.C.
Improved	12%	15%	19%	9%	10%	8%
Declined	25	20	12	30	32	36
Stayed about the same	57	63	60	56	54	51
Don't know	5	3	9	4	4	5

— Among heavy users of the postal service, almost four in ten (38 per cent) say that postal service has declined over the past few years.

Similarly, only 13 per cent of Canadians say that labour-management relations have improved since the post office converted to a Crown corporation. One in four — 24 per cent — feel that relations have declined.

The one encouraging note is that almost one in four Canadians (23 per cent) don't know what has happened to labour-management relations in recent years, a testament to fewer postal disruptions and, therefore, less media attention.

— Few Quebec residents have noticed a decline in the post office's labour-management relations (15 per cent) but west of Quebec, almost 30 per cent of Canadians say that relations have declined.

Change in Labour-Management Relations Since the Post Office Became a Crown Corporation

	Total Canada	Maritimes	Quebec	Ontario	Prairies	B.C.
Improved	13%	15%	12%	14%	8%	17%
Declined	24	20	15	29	26	28
Stayed about the same	41	50	46	37	43	33
Don't know	23	16	28	20	23	23

6. POSTAL RATES AND DEFICIT REDUCTION

Public attitudes reflect the diversity of opinions from within the government itself. No one proposal to reduce the cost of running the post office receives majority support. Canadians are reluctant to pay more for postal services either through increased postal rates or increased taxes. Of the two, increased taxes is the more unpopular alternative.

Canadians are also reluctant to accept a reduction in postal services. Two-thirds would pay higher postal rates or taxes to maintain daily delivery in urban areas. Over 70 per cent, however, say they would accept every other day delivery in return for no rate increases on first class mail for the next three years. (Refer to Section 7.0).

6.1 Financing the Deficit

Survey respondents were told that the post office is now operating at an annual deficit of nearly $400 million. They were then asked whether, under these circumstances, postal users, taxpayers or both should pay the cost of running the post office.

The most widely held view is that both postal users and taxpayers should continue to share the cost. Less than 20 per cent would place the entire burden on postal users and even fewer (7 per cent) say that taxpayers alone should bear the cost.

"Who should pay for the cost of running the post office?"

Postal users	19%
Taxpayers	7
Both	38
Neither	16
Other	8
Don't know	12

Almost two-thirds of Canadians are in favour of allowing the post office to offer competitive private sector services as a method of reducing its deficit and hedging against rate increases.

Yes, the post office should be allowed to compete	63%
No, the post office should not be allowed to compete	22
Depends	4
Don't know	11

There is no majority support, however, for either raising postal rates, cutting services or increasing taxes as ways to reduce the postal deficit. Raising taxes would be the least popular solution.

"What should the post office do to reduce its deficit?"

Raise rates	20%
Cut services	20
Government increase taxes	8
All three options (volunteered)	2
Make post office more efficient (volunteered)	10
Raise rates/cut services (volunteered)	3
None of the above	16
Don't know	11

One in ten Canadians volunteered that the post office could reduce its costs if it became more efficient.

6.2 Regulating Postal Rates

Canadians are divided over who should be responsible for setting postal rates; an independent commission, the federal cabinet or the post office itself. Public opinion on regulation parallels the division of attitudes toward who should operate the post office. (Refer to Section 5.0).

Who Should Set Postal Rates		Who Should Operate the Post Office	
Independent commission	31%	Privately-owned company	31%
Federal cabinet	29	Gov't ministry or department	28
Post office	27	Crown corporation	24
Depends	3	Other	1
Don't know	11	Don't know	16

7. REDUCED/EXTENDED SERVICES

7.1 Reduction in Daily Home Delivery

Two-thirds of Canadians (66 per cent) currently receive their mail through daily home delivery. On a regional basis, home delivery ranges from a low of 42 per cent of the population in the Maritimes to a high of 77 per cent in Ontario.

	% Receiving Daily Home Delivery
Total Canada	66%
Maritimes	42
Quebec	70
Ontario	77
Prairies	54
British Columbia	64

People who currently receive daily home delivery were asked if they would be willing to accept delivery less often in exchange for no rate increases on regular first class mail for the next three years. Thirty-two per cent say they would accept delivery once a week, 13 per cent twice a week and 27 per cent every other day. As a cumulative total, this represents 72 per cent of current daily home delivery people who would accept every other day delivery in exchange for no rate increases over the next three years.

One quarter of the population (24 per cent) would not accept any change. There is little regional variation in users attitudes toward change. Among heavy users of the postal system, however, the percentage of those who would not accept change, jumps to 40 per cent.

	Total Canada		Heavy Users (Daily)		Moderate Users (Once/several times per week)		Light Users (Less often than once per week)	
	%	CT	%	CT	%	CT	%	CT
Once a week	32	32	23	23	26	26	42	42
Twice a week	13	45	9	32	15	41	12	54
Every other day	27	72	26	58	30	71	24	78
Maybe every other day	3	75	2	60	3	74	4	82
Accept no change	24	99	40	100	26	100	17	99

CT = Cumulative Total

7.2 Change From Community or Post Office Box to Every Other Day Home Delivery

Almost 30 per cent of Canadians currently pick up their mail from a post office or community box (24 per cent and 4 per cent respectively). This ranges from a high of over 40 per cent in the Maritimes and the Prairies to a low of 18 per cent in Ontario.

	% Using Post Office/Community Box
Total Canada	28%
Maritimes	44
Quebec	24
Ontario	18
Prairies	42
British Columbia	29

Current post office/community box users were asked if they would prefer to receive home delivery every other day. A resounding 67 percent said "no"! Only 27 per cent said "yes" and 5 per cent didn't know.

7.3 Extra Cost For Guaranteed Overnight Delivery of First Class Mail in Canada

Most Canadians would pay extra for guaranteed overnight delivery of first class mail within Canada. Twenty per cent would pay $5.00 more per letter, 19 per cent would pay $3.00 — $4.00 more and 34 per cent would pay $1.00 — $2.00 more. Only 21 per cent would not pay extra.

On average, Canadians would pay an extra $2.40 for the service and this includes heavy users as well as moderate and light users of the postal system.

— Regionally, people living at either end of the country — in the Maritimes or British Columbia — would pay more for guaranteed overnight delivery than those in central Canada.

"For guaranteed overnight delivery of first class mail within Canada, how much extra would you be willing to pay?"

	Total Canada		Maritimes	Quebec	Ontario	Prairies	B.C.
	%	CT	CT	CT	CT	CT	CT
$5 Per letter	20	20%	25%	13%	19%	21%	32%
$4 per letter	5	25	33	16	24	27	36
$3 per letter	14	39	48	28	39	41	50
$2 per letter	16	55	58	48	52	59	68
$1 per letter	18	73	76	65	73	76	76
Wouldn't pay extra	21	94	93	93	92	94	96
Wouldn't use service	4	98	99	96	96	97	100
Don't know	2	100	100	100	100	100	100

7.4 Response to Other Service Proposals

Canadians are in favour of continuing daily home delivery in urban areas even if this increases postal rates or taxes although 72 per cent would accept every other day delivery in exchange for no rate increases.

Continuing daily home delivery in urban areas:

	Total Canada	Canadians Living In Urban Areas
In favour	63%	67%
Opposed	28	27
Don't know	9	6

Canadians are opposed, however, to the following proposals:

	Opposed	In Favour	Don't Know
Keeping post offices open during weekday evenings	76%	21%	3%
Increasing the hours of service in post offices on weekdays	75	21	6
Bringing back Saturday delivery in urban areas	73	20	6
Increasing the hours of service in post offices on Saturdays	67	29	4
Bringing back Saturday delivery in rural areas	66*	25	9

*57 per cent of those living in rural area are opposed; 33 per cent are in favour.

Appendix VI

Analysis of Business Opinion Survey

Commentary

The major single problem which business users of the postal system face is lengthy delays in mail delivery. Canada Post, and in particular, the first class mail system is seen as a the most economical vehicle for business correspondence, but it is also targeted as the slowest and least reliable.

As a result, a large minority of Canadian businesses have moved to other methods of correspondence transmissions, either on a temporary or permanent basis. The shift in methods of transmission have essentially been from first class mail to private couriers although all postal services have been affected by a reduction in use and other methods of transmission — particularly the telephone or telex — have benefitted.

Dissatisfaction with the postal service is far from universal and Canada Post still dominates in the area of sending business correspondence, despite the grumbling of businesses. But widespread recognition that the post office has improved its quality of service over the past four years has not yet been achieved.

Businesses expect Canada Post to do its part, to improve efficiency, before they will accept rate increases to help cover the deficit.

Business Attitudes Toward
Canada's Postal Service

Environics Research Group Limited

1. METHODOLOGY

The Canada Post Review Committee commissioned two surveys; one among the general public and the other among businesses across Canada. This report highlights the results from the business survey.

The Canada Post business survey is based on a random sample of 505 Canadian businesses, representing all regions of the country, excluding the Yukon and the Northwest Territories. In each instance, only head offices or single branch companies were contacted and "the manager most knowledgeable about the company's use of postal and courier services" was interviewed.

Distribution of the sample by number of full-time company employees at that location:

10 or less	16%
11 to 30	41
31 to 50	17
51 to 100	15
101 to 500	8
More than 500	3

(Average number of employees = 163)

Distribution of the sample by industry sector:

Manufacturing	28%
Retail trade	19
Service	17
Wholesale trade	12
Construction	8
Transportation, communications, and other public utilities	7
Finance, insurance and real estate	5
Agriculture, forestry and fisheries	2
Mining	1

The survey was conducted by telephone from Wednesday, September 11th to Tuesday, September 17th, 1985. Interviewing in all provinces outside Quebec was conducted from Environics' central location telephone facilities in Toronto. Interviewing in Quebec was conducted by CROP Inc. from their telephone facilities in Montreal.

2. SENDING BUSINESS CORRESPONDENCE

2.1 Use of Competitive Services

Canada Post is dominant in the area of business correspondence transmission. Almost all Canadian businesses have used the first class mail service within the past month, over half have sent correspondence by registered mail, 45 per cent have used parcel post, 42 per cent special delivery and 24 per cent priority post.

Overall, Canada Post has processed 75 per cent of Canada's business correspondence within the past month.

	Incidence of Use Within Past Month	% of Total Volume
First class mail	99%	67%
Registered mail	53	2
Parcel post	45	3
Special delivery	42	2
Priority post	24	1
		75%

The use of competitive services is also fairly widespread with private couriers at the top of the list. Private courier services were used by three-quarters of all businesses in the past month and carried 10 per cent of the total volume of business correspondence.

	Incidence of Use Within Past Month	% of Total Volume
Private courier	74%	10%
Bus parcel express or train	36	2
Telex	32	4
Airline courier	31	1
Company messenger	27	2
Taxi	17	1
Other	5	

On a regional basis, companies in Quebec are more likely to have used registered mail (67 per cent) and less likely to have used private couriers (53 per cent).

Businesses in Ontario and British Columbia are more likely to have used private couriers and telex. Companies in British Columbia are also more likely to have used airline couriers.

	Ontario	B.C.
Private courier	84%	92%
Telex	38*	39*
Airline courier		52

*Compared with 26 per cent in other regions.

2.2 Annual Expenditure for Mail, Courier and Other Correspondence Transmission

Canadian businesses spend an average of $20,562 per year on all forms of correspondence transmission. This figure represents the total amount spent by the head office and does not include branch offices.

The following table shows the distribution of yearly expenditure:

$1,000 or less	16%
$1,001 to $2,000	14
$2,001 to $6,000	20
$6,001 to $10,000	9
$10,001 to $70,000	15
More than $70,000	25

2.3 Annual Expenditure for Postal Services Alone

Approximately half the total expenditure for all types of correspondence transmission is spent on postal services. Canadian business excluding branch offices spend, on average, $10,113 per year on postal services. Postal services, including first class mail, registered mail, special delivery, parcel post and priority post, carry 75 per cent of the total volume of business correspondence at 50 per cent of the total cost.

2.4 Evaluation of Canada Post Versus Other Methods of Sending Business Correspondence

On a competitive basis, Canada Post's first class mail service is considered the most economical but also the slowest and least reliable method of sending business correspondence.

Two-thirds of business users said that first class mail was best for cost (67 per cent) but also worst for speed (66 per cent). Over half (56 per cent) identified first class mail as worst for reliability.

Private courier services, on the other hand, were most often chosen as best for speed and reliability although worst for cost.

Cost

Best Cost		Worst Cost	
First class mail	67%	Private courier	37%
Private courier	10	First class mail	12
Parcel post	3	Priority post	9
Special delivery	2	Registered mail	5
Priority post	2	Special delivery	3

Speed

Best Speed		Worst Speed	
Private courier	46%	First class mail	66%
Priority post	10	Parcel post	9
Telex	8	Registered mail	2
Special delivery	7		
First class mail	6		

Reliability

Best Reliability		Worst Reliability	
Private courier	43%	First class mail	56%
Registered mail	12	Parcel post	6
Priority post	9	Private courier	2
First class mail	7		
Special delivery	5		

2.5 Confidence in the First Class Mail Service

Forty-seven per cent of Canadian businesses entrust important correspondence or documents to the first class mail service all or most of the time. Fifty-two percent, however, use first class mail for important correspondence only some of the time, rarely or never.

Incidence of Using First Class Mail for Important Correspondence

All the time	21%
Most of the time	26
Some of the time	16
Rarely or never	36

Despite the cost advantage of using first class mail, perceived lack of speed and reliability are deterrents for business users who wish to send important correspondence. These were the main reasons given for not using first class mail more often.

Reasons for Not Using First Class Mail More Often

	(Those who use first class mail to send important documents only some of the time, rarely or never)
Not fast enough	40%
Not reliable	40
Mail might get lost	6
Other reasons	9

2.6 Pre-Sorting Mail to Get a Reduced Rate

Most Canadian businesses with a sufficient volume of mail to benefit from the bulk rate pre-sort all or some of their outgoing correspondence. A small minority — 7 per cent — think they have sufficient volume but are not currently pre-sorting outgoing mail. The majority of these businesses are not pre-sorting because they are unaware of the discount.

Incidence of Pre-Sorting Mail

Yes — pre-sort all or some outgoing mail	20%
No — do not pre-sort but have sufficient volume to benefit	7
No — do not pre-sort/ do not have sufficient volume	61
Don't know if company has sufficient volume	11

3. PROBLEMS WITH THE POSTAL SERVICE

Nearly half (47 per cent) of all Canadian businesses have experienced serious mail delivery problems in the past couple of years. West of Quebec, problems with mail delivery have affected over 50 per cent of businesses.

Experienced problems?

	Total Canada	Maritimes	Quebec	Ontario	Prairies	B.C.
Yes	47%	39%	33%	52%	55%	54%
No	51	61	65	45	43	46
Don't know	2	—	2	3	2	—

Among companies which experienced problems, the most common complaint is lengthy delays in mail delivery or receipt. Only 10 per cent mentioned postal strikes.

Types of problems?

	(Those who experienced problems)
Lengthy delays	71%
Lost mail	24
Misdirected mail	11
Strikes	10
Damaged items	5

Thirty-seven per cent of all Canadian companies have downgraded their use of Canada Post as a result of problems with the mail service. One in four now use the postal service less often on a permanent basis and 14 per cent have used it less often on a temporary basis.

Effect of Problems With the Postal Service on Levels of Use

Use less — permanently	23%
Use less — temporarily	14
Made no difference	53
Have no problems (volunteered)	10

Companies which are now using the postal service less often on a permanent basis have predominantly moved from first class mail to private couriers. Use of all Canada Post services, however, has been affected and telephone or telex has also been a major beneficiary of the change.

Use Postal Service Less Often on a Permanent Basis

Use Less:		Use More:	
First Class Mail	60%	Private Courier	78%
Parcel Post	33	Telephone	31
Registered Mail	26	Company Messenger	18
Priority Post	25	Bus/Train	15
Special Delivery	20	Airline Courier	15
		Telex	12

Similarly, for companies which used the postal service less often on a temporary basis, the main shift was from first class mail to private courier service.

Used Postal Service Less Often on a Temporary Basis

Used Less:		Used More:	
First Class Mail	57%	Private Courier	72%
Special Delivery	29	Telephone	13
Parcel Post	25	Company Messenger	12
Priority Post	22	Bus/Train	9
Registered Mail	15	Telex	6
		Airline Courier	4

4. ATTITUDES TOWARD QUALITY OF POSTAL SERVICE AND COST

The attitudes of Canadian businesses toward the post office are similar to public opinion.

Two-thirds (65 per cent) are satisfied with the quality of service they receive from Canada Post. West of Quebec, 58 per cent are satisfied and 42 per cent are dissatisfied.

Quality of Postal Service

	Business Users	General Public
Very satisfied	17%	23%
Somewhat satisfied	48	39
TOTAL SATISFIED	65	62
Somewhat dissatisfied	20	21
Very dissatisfied	14	17
TOTAL DISSATISFIED	34	38

Although businesses identify first class mail as the least expensive way to send correspondence*, almost half (46 per cent) consider the cost of the postal service to be unreasonable and 51 per cent say the first class mail rate of 34 cents is unreasonable.

*Refer to Section 2.4.

Cost of Postal Service (In general)

	Business Users	General Public
Very reasonable	10%	13%
Somewhat reasonable	44	5
TOTAL REASONABLE	54	48
Somewhat unreasonable	31	26
Very unreasonable	15	24
TOTAL UNREASONABLE	46	50

Cost of Sending First Class Mail (34 cents)

	Business Users	General Public
Very reasonable	10%	15%
Somewhat reasonable	38	36
TOTAL REASONABLE	48	51
Somewhat unreasonable	34	29
Very unreasonable	17	19
TOTAL UNREASONABLE	51	48

Regionally, businesses in Quebec are most positive toward Canada Post both in terms of quality of service and cost. Businesses in Ontario and the Prairies are most critical. Regional variations in attitude parallel the findings of the public opinion survey.

5. THE POST OFFICE AS A CROWN CORPORATION

5.1 Who Should Operate the Post Office?

Canadian businesses are more polarized in their views over who should operate the post office. Public opinion is divided.

Businesses favour privatization over direct or indirect government ownership. Only one in five (21 per cent) would continue to run the post office as a Crown corporation and even fewer (14 per cent) would revert back to operating the post office as a government ministry or department.

Support for the various operational alternatives:

	Business Users	General Public
Privately-owned company	49%	31%
Crown corporation	21	24
Government ministry or department	14	28
Other	1	1
Don't know	15	16

5.2 Impact of Becoming a Crown Corporation on the Quality of Postal Service

Eighteen per cent of Canadian businesses have noticed an improvement in the quality of postal services since Canada Post became a Crown corporation. The majority view, however, is that postal service has stayed the same (55 per cent) or declined (23 per cent).

Once again, business attitudes parallel public opinion although business is somewhat more likely to have noticed a change for the better (18 per cent versus 12 per cent).

Change in Quality of Service Since the Post Office Became a Crown Corporation

	Business Users	General Public
Improved	18%	12%
Declined	23	25
Stayed the same	55	57
Don't know	4	5

The distinctive regional variations in attitude which are seen in the survey of public opinion are also present among businesses. Among business users, the sense that postal service has declined ranges from a low of 10 per cent in Quebec and increases as one moves west, to a high of 44 per cent in British Columbia.

Change in Quality of Service
(Business Users)

	Maritimes	Quebec	Ontario	Prairies	B.C.
Improved	27%	23%	16%	16%	13%
Declined	15	10	25	26	44
Stayed the same	55	62	55	54	43
Don't know	3	5	4	4	—

6. POSTAL RATES AND DEFICIT REDUCTION

6.1 Financing the Deficit

Businesses in the survey were told that the post office is now operating at an annual deficit of nearly $400 million. They were asked whether, under these circumstances, postal users, taxpayers or both should pay the cost of running the post office.

Canadian businesses say that postal users alone or a combination of postal users and taxpayers should pay the cost. They are not in favour of having taxpayers, alone, pay for the deficit.

Businesses are more likely than the general public to place the onus on postal users. Companies with annual correspondence expenses above $10,000 (heavy users) are even more inclined than companies with light or moderate expense levels to assume the responsibility, as postal users, of paying for the deficit (35 per cent of heavy users versus 25 per cent of moderate or light users).

"Who should pay the cost of running the post office?"

	Business Users	General Public
Postal users	30%	19%
Taxpayers	5	7
Both	31	38
Neither	17	16
Other	9	8
Don't know	8	12

Three-quarters of Canadian businesses believe that the post office should be allowed to offer competitive private sector services, such as courier service, as a method of reducing its deficit and hedging against rate increases. Business is even more in favour of permitting the post office to compete than the general public.

	Business Users	General Public
Yes, the post office should be allowed to compete	74%	63%
No, the post office should not be allowed to compete	19	22
Depends	3	4
Don't know	4	11

Few businesses, however, support raising postal rates, cutting services or increasing taxes as ways to reduce the postal deficit. The most often mentioned solution was the volunteered comment that the post office should increase its efficiency.

"What should the post office do to reduce its deficit?"

	Business Users
Raise rates	19%
Cut services	15
Government increase taxes	3
All three options (Volunteered)	3
Run the post office more efficiently (Volunteered)	27
Other solutions	11
None of the above	12
Don't know	10

6.2 Regulating Postal Rates

Business is somewhat more in favour of setting up an independent commission to set postal rates than either relying on the federal cabinet or the post office itself to regulate rates. The general public is divided on this issue.

"Who should set postal rates?"

	Business Users	General Public
Independent commission	40%	31%
Post office	24	27
Federal cabinet	21	29
Depends	3	3
Don't know	11	11

Appendix VII

List of Parties Appearing Before the Review Committee

Vancouver

Charles Bainbridge

David Black & Hugh Dickson
B.C. & Yukon Community Newspaper Association

Oscar Johansen

Neil MacDonald

Doug Plumsteel
Creative Promotions Group Ltd.

Jack Prescott
Canada Post Corporation

Unions — Local

G. Vlismas

Janice Whitehead
Vanguard Magazine

Calgary

Judy McGilis
Petrocan

Ron Smith
Canada Post Corporation

Rob Trautman
Alberta Handicapped Communications Society

Shirley Twerden

Barbara Tyler
Canadian Museums Association

Unions — Local

Yellowknife

Coral Flatt & Dave Talbot
Yellowknife Chamber of Commerce

Anita Perry & Charles Dent
N.W.T. Associaton of Municipalities

Winnipeg

Harvey Lavery

Bob Phillips
Canadian Farm Press Association

Gerry Posner
Canadian Greetings

Tim Rodgers & Don Swanson
Canada Post Corporation

Unions — Local

Halifax

Guy Breau
Damart Limited

J.F. Cochrane

Representatives
City of Halifax

Larry Reid
Canada Post Corporation

B.E. Simpson
Vesey's Seeds Limited

Jan Thompson
Girl Guides of Canada

Unions — Local

Montréal

Robert Bedingfield & Bruce McGregor
Ernst & Whinney

Bruce Brandhoast
McGill University

Jim Corkery
Royal Canadian Mint

Allan Davis
Association of Québec Regional English Media

Peter Griffiths
Tape-a-Letter Communications Inc.

Randy Kudar & Bob Britney
University of Western Ontario

André Malo
Canada Post Corporation

Roger Martin
Avon of Canada

Rita Poulin-Martel
Association des Courriers Ruraux du Canada

Jean Roy
MasterCard

Unions — Local

Toronto

Marianne Antoniak
Canadian Federation of Independent Business

Harvey Botting
Maclean Hunter Limited

Jim Dills
Canadian Community Newspaper Association

John S. Crosbie & Michael Druce
The Magazine Association of Canada

D.H. Eltringham
Australian Postal Commission

Frank Ferguson
Canadian Direct Marketing Association

John Foy
Canadian Daily Newspaper Association

Ralph Hancox & Bob Wilson
National Association of Major Mail Users

Ray Jones
Canada Post Corporation

Greg Keilty & Dinah Hoyle
Canadian Periodical Publishers' Association

Don McArthur
Consumers' Gas Association

Dan McKenzie, M.P.
Winnipeg-Assiniboine

Alasdair McKichan
Retail Council of Canada

Victor M. Power
Mayor of Timmins

Tom Reid
Reid Management Limited

Jack E. Roberts & Bob Lyman
Canadian Gas Association

Robert Sleeth
Envelope Makers' Institute of Canada

Ron Starky
Canadian Postmasters and Assistants Association
(Ontario Branch)

Unions — Local

Glenn C. Smith
United Parcel Service

Ad Varma

Ottawa

Board of Directors
Canada Post Corporation

Roger Bouvier
Canada Post Corporation

Shirley Carr
Canadian Labour Congress

Kenneth Dye
Auditor General of Canada

Executive Vice-Presidents
Canada Post Corporation

Aurèle Gervais, M.P.
Timmins-Chapleau

Marc Langlois
Canada Post Corporation

Claudy Mailly, M.P.
Gatineau

René J. Marin
Canada Post Corporation

Norman McKay
Mini Peripherals

Dave McKendry
Consumers' Association of Canada

L.M. Reid
Carleton University

Unions — Local

Marianne Wilkinson
Mayor of Kanata

List of Submissions to the Committee

British Columbia

Douglas Caldwell
Vancouver, B.C.

Anne Cameron
Powell River, B.C.

Christine Code
Vancouver, B.C.

Herman A. Crewson
British Columbia Health Association
Vancouver, B.C.

W.M. Gibson
Courtenay, B.C.

Alexander Grant
Vancouver, B.C.

Len Hammond
Victoria, B.C.

Howard Hayden
Registered Industrial Accountant
Vancouver, B.C.

R. Hughes
Victoria, B.C.

W. David Latham
Coquitlam, B.C.

J.A. McInnes
N. Vancouver, B.C.

J.P. Meadows
White Rock, B.C.

J.C. Murray
Pitt Meadows, B.C.

E. Nienor
Sidney, B.C.

Gordon Robson
The News Group
Maple Ridge, B.C.

Barbara Rolls
Victoria, B.C.

Wade Seeze
Vancouver, B.C.

Gail Storey
Vancouver, B.C.

G.W.C. Tait
Gibsons, B.C.

E.F. Tracey
Victoria, B.C.

G.S. Webster
Western Kernel Distributors
Vancouver, B.C.

Alberta

Bruce Campbell
Edmonton Chamber of Commerce
Edmonton, Alberta

Omkar Nath Channan
World Organization of Building Officials
Calgary, Alberta

Patricia Hamilton
Chipewyan Lake, Alberta

E. Rankin
Calgary, Alberta

Ed Redecopp
Wetaskiwin, Alberta

Glenn Sanderse
Power Up
Calgary, Alberta

Lorne R. Wood
Alberta Schools Athletic Association
St. Albert, Alberta

Saskatchewan

Stan H. Cameron
Free Distribution Newspaper Association Inc.
Saskatoon, Saskatchewan

D.W. Mario
Saskatoon, Saskatchewan

Don Ravis, M.P.
Saskatoon East

Manitoba

Neil Cameron
Minnedosa, Manitoba

Tom Pilgrim
Brandon, Manitoba

Brian White, M.P.
Dauphin-Swan River

Ontario

Caroline M. Alvey
Hamilton, Ontario

C.E. Babb
Burlington, Ontario

Eric W. Baker
Gormley, Ontario

Shirley Brazeau
North Bay, Ontario

Eric Brear
Concord Cleaning & Fire Restoration Limited
Kingston, Ontario

B.I. Brown
London, Ontario

Clifford Brown
Conn, Ontario

Robert N. Brown
Rexdale, Ontario

Mary I. Buch
Brockville, Ontario

Sydney J. Dawson
Kleinburg, Ontario

Ann Felix
London, Ontario

Eduard Frensch
C. Frensch Limited
Grimsby, Ontario

John M. Ferguson
Brampton, Ontario

J.M. Gelinas
Kapuskasing, Ontario

Norman S. Grace
Thunder Bay, Ontario

Edward S. Herold
Guelph, Ontario

N.A. Hills
N.A. Hills Computing Services Limited
London, Ontario

J. Hodge
Orton, Ontario

W.D. Hyde
Hayden Blake Inc.
Georgetown, Ontario

Bill Kennedy
IB Printing Company Limited
Durham, Ontario

Rodger Lepinsky
Brockville, Ontario

Robert B. Livingston
London, Ontario

Betty Lynn
Leamington, Ontario

James Mark
Islington, Ontario

J.T. McGuire
Goderich, Ontario

H. Metzler
Rexdale, Ontario

Ralph Milne
Freightaudit Services Ltd.
Markham, Ontario

Clark Muirhead
Ashburn, Ontario

George Neely
Bala, Ontario

R. Bruce Neilson
Hamilton, Ontario

Basil J. Phelan
Swallow Hotels
Peterborough, Ontario

Colin J. Shakespeare
Burlington, Ontario

Linda Snedden
Friendship in Action
London, Ontario

Albert Springer
North Bay, Ontario

J.G. Strickland
Miskwabi Area Cottagers'
Association Inc.
Scarborough, Ontario

The Corporation of the Town of Whitby
Whitby, Ontario

Toronto and Area

E.A. Bulloch
Mississauga, Ontario

Raymond Byrnes
Goodwill Industries
Toronto, Ontario

Angelo Cristofaro
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Barry J. Dann
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Alexander Franklin
Toronto, Ontario

Kenneth G. Frankum
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Toronto, Ontario

Mabell E. LeClair
The Federation of Engineering
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Toronto, Ontario

Kenneth McDonald
Willowdale, Ontario

George B. McLaughlin
Thinkers' Mart
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Rappai J. Nedumpara
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Darlene Nitschais
Mississauga, Ontario

Bob Pennock, M.P.
Etobicoke North

Harry Pope
Toronto, Ontario

Bruce Posgate
Toronto, Ontario

Maxine Roberts
Mississauga, Ontario

Rene J. Soetens & W.G. McLean
Town of Ajax, Ontario

H.W. Somerville
Toronto, Ontario

E.G. Springman
Canadian Diabetes Association
Toronto, Ontario

E. William Theriault
EWT Improvement Group Limited
Toronto, Ontario

J. Douglas Tracy
Mississauga, Ontario

Paulette Vinette
Institute of Associated Executives
Toronto, Ontario

Robert James Wilson
Pickering, Ontario

Ottawa and Area

Roger B. Hamel
Canadian Chamber of Commerce
Ottawa, Ontario

Stephen Hazell
Canadian Wildlife Federation
Ottawa, Ontario

N. Kapinsky
Bernard Karp Ltd., Realtors
Ottawa, Ontario

Robert F. Legget
Ottawa, Ontario

Paul Morel
Development Econometrics
Stittsville, Ontario

Bill Peppler
Canadian Owners and Pilots Association
Ottawa, Ontario

A.K. Ray
Gloucester, Ontario

Sutantar Singh
Ottawa, Ontario

D.A.R. Stephens
Ottawa, Ontario

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Claude Fortin
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Ransom Hayes
East Angus, Québec

Edward A. Kaufman
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Yves Poisson & Jeanne Hardy
Québec City, Québec

Charles M. Ward
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Henry Holgate
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James A. McGrath, P.C., M.P.
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Northwest Territories

Tom Butters, M.P.P.
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